

THE *Freeman*

IDEAS ON LIBERTY

AUGUST 1963

The Lure of a Lost Cause	Edmund A. Opitz	3
The Apples of Finnis Creek	Stanley Yankus	6
Profits	Benjamin A. Rogge	8
I Want My 63¢ Back!	James Herz	15
Kakistocracy	Leonard E. Read	19
The Economic Role of Saving and Capital Goods	Ludwig von Mises	28
On Breeding Prosperity	F. A. Harper	34
Man's Destiny: Forced or Free?	William Henry Chamberlin	39
The American Tradition: Of Individualism	Clarence B. Carson	45
"Big Red" Makes a Choice	William E. Howell	56
Little Jack Horner	Ralph Bradford	58
Books:		
A Matter of Philosophy	John Chamberlain	59
Other Books		62



THE FOUNDATION
FOR ECONOMIC EDUCATION, INC.
Irvington-on-Hudson, New York 10533

OUTSTANDING ADVANTAGES FOR COAST FEDERAL SAVERS

FINANCIAL STRENGTH — Assets over half a billion dollars. Strong reserves and high ratio of cash and government bonds to assure withdrawal of savings immediately on request.

HIGHER EARNINGS — Earnings for first six months of 1963 paid at 4.90% per year.



MAIN OFFICE
9th & Hill, Los Angeles

SAVE-BY-MAIL — We pay postage.

MEMBER:

Federal Savings and Loan Insurance Corp.
Federal Home Loan Bank.

**IF IT'S SAFETY YOU WANT MOST—
OPEN YOUR SAVINGS ACCOUNT AT COAST**

"A Businessman Looks at Communism Vs. Capitalism"

For your courtesy copy of President Joe Crail's speech, write to:

Coast Federal Savings
Post Office Box 5150A
Los Angeles 55, California

COAST FEDERAL SAVINGS

JOE CRAIL, PRESIDENT

LICENSED TO UNZ.ORG

ELECTRONIC REPRODUCTION PROHIBITED

IN THIS ISSUE

- ✓ The greater the challenge, the more opportunity for achievement, says this freedom fighter p. 3
- ✓ Stanley Yankus discovers in an apple orchard in Australia an important lesson about private property p. 6
- ✓ Professor Rogge explodes several myths and offers new insight into the complexities of profits and their purpose p. 8
- ✓ A young man tries to help the tax collector find a way to refund property taken in error p. 15
- ✓ The Greeks had a word for it, and Leonard E. Read has a few words about "government by the worst men" p. 19
- ✓ That freedom and prosperity hang upon personal saving and accumulation of capital is the message Dr. Mises brings p. 28
- ✓ Once more it seems necessary to explain why a booming growth in population does not necessarily spell economic progress p. 34
- ✓ William Henry Chamberlin explains that man shapes his own destiny to the degree that he denies or assumes personal responsibility..p. 39
- ✓ And Professor Carson carefully traces the thread of individualism in *The American Tradition* p. 45
- ✓ A hawk soaring over the snow-swept Kansas prairie offers a lesson on the rigors and rewards of freedom p. 56
- ✓ Ralph Bradford gives Little Jack Horner a modern twist p. 58
- ✓ Reviewer John Chamberlain has some serious reservations about Adolph A. Berle's picture of *The American Economic Republic* p. 59
- ✓ Percy Greaves, Jr., reviews the new English translation of Dr. Mises' *The Free and Prosperous Commonwealth* p. 62



A MONTHLY JOURNAL OF IDEAS ON LIBERTY

AUGUST 1963

Vol. 13, No. 8

LEONARD E. READ *President, Foundation for
Economic Education*

PAUL L. POIROT *Managing Editor*

THE FREEMAN is published monthly by the Foundation for Economic Education, Inc., a non-political, nonprofit educational champion of private property, the free market, the profit and loss system, and limited government, founded in 1946, with offices at Irvington-on-Hudson, New York. Any interested person may receive its publications for the asking. The costs of Foundation projects and services, including **THE FREEMAN**, are met through voluntary donations. Total expenses average \$12.00 a year per person on the mailing list. Donations are invited in any amount—\$5.00 to \$10,000—as the means of maintaining and extending the Foundation's work.

Copyright, 1963, The Foundation for Economic Education, Inc. Printed in U.S.A.

Additional copies, postpaid, to one address: Single copy, 50 cents; 3 for \$1.00; 25 or more, 20 cents each.

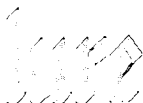
Permission is hereby granted to anyone to reprint any article in whole or in part, providing customary credit is given, except "The American Tradition."

Any current article will be supplied in reprint form if there are enough inquiries to justify the cost of the printing.



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE



OF A



EDMUND A. OPITZ

THE THINGS with which our lives are most intimately involved are lost causes, every one of them. They are sometimes hard to recognize for what they really are precisely for this reason; it is our nature to want to back winners. The repeated advice of my college coach was: "Let the other fellow be the good loser." When I refer to lost causes, I have in mind such things as the Christian faith we profess, the Church we belong to, the ministry we look to for spiritual guidance . . . and our very life itself. I call these things lost causes, not as a prelude to offering you a counsel of despair, but quite the contrary. When a cause is victorious, the game is over and we are no longer needed. Lost causes need us, and we need to be needed. The challenge of advancing a lost cause a notch or two, and the effort this requires, gives individual life its savor and meaning.

Christians ought to be on familiar terms with lost causes. After all, it was not Jesus who said: "I came, I saw, I conquered." It was Caesar. Jesus lived a blameless life, brought healing to sick minds and bodies, gave the world a vision of God and man the world has never been able to forget — or ever

From a sermon by Edmund A. Opitz, a senior staff member of the Foundation for Economic Education, delivered at the First Congregational Church of Wauwatosa, Wisconsin, March 31, 1963.

quite remember — and so they crucified him. This does not read like the formula for a contemporary success story. As the world measures victory, this was a colossal defeat. But out of this defeat came the Church.

The Church, basically, is a company of seekers, a band of men and women who seek to become fitter instruments for the accomplishment of God's purposes. This is perhaps the ideal Church; and if the actual Church were this and nothing else, there wouldn't be much of a problem. The actual Church in every age has come under the spell of secular movements and enthusiasms, to the detriment of spiritual religion. Churchmen, in every age, have dreamed of a large, wealthy, and powerful ecclesiastical organization, both for the sake of organization itself and for the sake of the political power such an organization might wield. Temptations of this latter sort have always beset the Church, and they are peculiarly strong in our time when, for the first time in history, governments have been able to trick a lot of people into believing that popular welfare is now the goal of politics. It was difficult enough to keep Church and state separate when the state's image was that of a warlord or a policeman; but now that the state has succeeded in projecting the

image of a guardian angel the churches are more than ever tempted to politicalize their faith in order to get on the side of that angel! This we must resist, for the Church's sake and also for the sake of the state.

"The Good News of Damnation"

A New England Puritan of the seventeenth century left a journal. In it he wrote: "My heart leaps for joy every time I hear the good news of damnation." Even if we were inclined to accept the Puritan's grim theology, which we are not, we'd want to challenge his idea that the news of damnation is good. Why speak of future punishment as a cause of rejoicing? It was along these lines that I used to poke fun at the Puritan mentality, even while acknowledging that it did produce some sturdy and admirable characters. This old Puritan is no longer around to tell us what he had in mind; thus we are free to speculate. Keeping in mind that his map of the universe is not the same as ours, what was he trying to say about man and man's relation to God? Let us start with his conclusion and unravel it till we reach the premises on which it is founded.

This old doctrine says, first of all, that Something or Somebody in the universe cares for us indi-

vidually, one by one. This is the basic implication of any system of rewards and punishments based on merit or demerit. The conviction that this is a universe where, in the long run, we do get our just desserts implies that we have a responsibility for our lives; that nobody really gets away with anything.

No one is properly held responsible for an outcome which his actions did not affect one way or the other. Responsibility implies freedom. To say that man is a responsible being is to say that his freely made choices do cause things to happen this way rather than that. Life's alternate possibilities of reward and punishment imply that men *must* choose. And because the universe does not jest, it has not given man the freedom to make a choice as to how he will commit his life without at the same time equipping that choice with power to affect the ultimate outcome. This is the core of the doctrine of Election, which a hillbilly preacher explained to his flock in this fashion: "The Lord votes for you; the Devil votes against you. It's the way *you* vote that decides the election." Even if you do nothing, your very inaction becomes a form of action, affecting the eventual outcome.

In other words, our lives do count for one thing or another,

and we can make them count on the side of the right and the good. The individual soul is a battleground where real issues are fought out and decided. The Power behind the universe has so much confidence in man that it has made him a free and responsible being. These are the basic premises of the Puritan faith. This is part of our heritage, but each generation has to earn its heritage anew before we can make it our own.

Obstacles Can Be Stepping-Stones to Progress

It is obvious that a creature of such vast potential as man is not designed to float with the current; he is designed to go against the stream and he enhances his powers by so doing. We didn't volunteer for this business of living; we were — you might say — drafted into life, and for life. We're here to learn, and to grow. The moment we rest on our oars and begin to think we've got it made, at that moment we start to come unglued. Biologically speaking, we are embarked upon a lost cause. But when we truly participate in life, we discover other dimensions than the merely biological. Life becomes a cosmic adventure, an adventure in destiny; a new kind and quality of life begins to evolve in us, and we come face to face with the eternal mysteries.

The rest of creation is complete; we alone are unfinished. The Creator has given the animal world all the answers it needs; the answers are locked up in instinctual responses as old as time. But man has not been given the answers; before *our* eyes the Creator has posed a gigantic question mark. We are handed a question, and the answers are ours to give. We have the responsibility, the freedom, and the power to respond.

The Church is a means for ends

beyond itself; and our lives contain potentialities which can never be fully realized on the biological plane. Both are lost causes, in St. Paul's sense, where he speaks of foolish things confounding the wise and weak things confounding the mighty. Paradoxically, there *is* a kind of strength in weakness, and there *is* a kind of wisdom in foolishness. And there are victories in lost causes, because God may choose them to work out his purposes. ♦



The Apples of Finniss Creek

STANLEY YANKUS

AS A STANCH BELIEVER in liberty, I've been puzzled by the mental processes that take place in a socialist's mind. By what quirk does one justify taking what belongs to someone else?

At least part of the answer was supplied recently in an apple orchard along Finniss Creek in South Australia. My family and I were visiting a farmer in that area. Toward evening, he invited us to inspect his neighbor's orchard.

As we approached the boundary fence, our host explained that he had obtained permission to inspect the orchard, but we were forbidden to touch the apples. Inside the fence, we four adults and seven children found ourselves surrounded by acres and acres of ripe, juicy apples ready to be picked and eaten. Temptation beckoned us as it did Adam and Eve in the Garden of Eden.

Before long, one of the children asked, "May I have this apple on the ground?" The farmer's firm reply was, "No!" For he understood one of the first laws of lib-

Mr. Yankus moved to Australia from Michigan in protest against such things as government subsidy and control of farming.

erty: Only the owner of the property can give a gift. The apples were not our host's to give.

Everything that happens to us has some lesson to teach. And reflection upon that incident in the apple orchard has afforded new insight to me. My desire to know how a socialist thinks seemed to be fulfilled as I visualized myself alone, unwatched, and hungry for a day in that orchard on Finnis Creek. How easy to think of socialistic excuses for taking just one apple:

This limb is so laden that it will break if I do not pick an apple from it.

My taking an apple would be an act of charity on the owner's part.

This apple would spoil if I did not pick it now.

This apple is on the ground.

The owner would never miss one apple in 100,000; he'd never see this one.

I'll offer to pay for an apple if I get caught picking it.

I'm hungry and have a right to eat.

He's richer than I am.

With so many apples, he'd only have to pay more taxes.

This apple is unsalable.

This one has a worm in it.

The crows eat some apples; why shouldn't I?

The owner doesn't own the apples because Nature grew them.

I pay taxes to subsidize farmers, so I'm only taking part of what belongs to me.

There is a surplus of apples, and I'd be helping reduce the surplus.

Distribution is more important than production.

I'll vote and pass a law to make it legal to take an apple.

The majority rules, and I'm obviously the majority here.

To get anywhere in this world you have to take what you want.

The Lord helps those who help themselves.

I've seen other men take apples.

I'll just take an apple for the poor folks I know.

The almost endless list of excuses for taking just one apple are simply variations of those that people use to justify their socialistic acts. And the sad part of it is that most of us fail to recognize our own personal excuses. It's easy enough to see the socialism in others, and condemn them. Much more difficult is to recognize and rout the socialism from ourselves. Yet, how else can any one of us contribute toward making this a better world?

If you want to appreciate what makes a socialist tick, take a stroll through an apple orchard ready for harvest. And reflect on those excuses of "want" or "need" that you might have been tempted to use to take the property of others.

BENJAMIN A. ROGGE

PROFITS

BY ANY MEASURE one can conceivably use, profits have been shrinking in recent years. Profits after taxes in 1941 constituted 9 per cent of the national income; in 1961 they constituted 5+ per cent of the national income. Profits as a percentage of dollar sales averaged $5\frac{1}{2}$ per cent in the period 1947-1949; now they are averaging $2\frac{1}{2}$ to $3\frac{1}{2}$. Profits as a percentage of net worth averaged 11 to 13 in the period 1947-1949; now they are averaging 6 per cent to 7.

Are Profits Now Too High or Too Low?

Can we deduce from this information that profits are now too low or that they were once too high and are now just right? This is a complex question and calls for a complex and serious answer.

The first problem is to define what is meant by "too high" and

"too low." Unfortunately, total dollar figures tell us almost nothing; as a matter of fact, neither do percentage figures of the kind I have given above. I am no more justified in using those figures to prove that profits are now too low than a trade union economist would be in using them to prove that profits were once too high.

The percentage share of profits in the national income of a country is largely determined by the relative abundance or scarcity of entrepreneurial capital and talent. In a country where capital is scarce and business leadership talent is in short supply, profits will and must command a larger share of the national income than in a country where both capital and talent are relatively abundant. The failure to recognize this fact is the single most important deterrent to economic growth in the underdeveloped countries of the world today. The governments of those countries, inspired in part by the anti-profits bias of both

Dr. Rogge is Dean and Professor of Economics at Wabash College, Crawfordsville, Indiana. This article is from an address before the National Association of Manufacturers' Clergy-Industry Relations Committee and Clerical Advisory Council.

the socialists and the modern liberals, have tried to keep profit levels low, or have punished or nationalized the high-profit firms. In doing so, they have dried up the wellspring of all economic development: vigorous, aggressive entrepreneurship.

It follows as well that as an economy matures and becomes relatively better blessed with capital and leadership, the percentage share of the national income represented by profits will decline. Thus, the figures I presented above do not necessarily prove that profits are now too low.

The Concept of "Normal" Profits

So let us abandon our inquiry into total figures. Where can we turn? One technique of explanation frequently employed is that of evaluating profit figures for the individual firm. If, for a given firm or industry, profits as a percentage return on sales or investment are found to be significantly higher than for other firms or industries, profits are said then to be "too high"; if much lower than for other firms or industries, they are said to be "too low."

This technique seems on the surface to be a valid one, and its validity is apparently attested to by the fact that even businessmen use it when they want to prove that their firms or industries are

in need of help or are suffering under special handicaps.

One assumption here is that normal profits (as determined by the statistical average of all profits) are the right or "just" profits and that profits above or below normal are thus "too high" or "too low."

This approach is often used by trade unions to show that a given group of firms has been making abnormally large profits and thus can and should pay higher wages.

It is extremely unfortunate that this point of view on profits has received such wide acceptance in all groups in our society. It implies that businesses should be permitted (perhaps even assisted) to make a "normal" or "fair" profit, but become suspect once they earn more than this statistical norm.

This approach rests on a serious misunderstanding of the function of profits and losses in a free market economy. It is true that, in the long run, and in a competitive market, each firm will be making profits no more and no less than it could make in alternative activities. This is true because if the typical firm in the industry were making higher than normal profits, other firms would enter the industry and profits would be driven down. If the typical firm were making lower than normal

profits, some firms would leave the industry and profits for those remaining would rise. Thus in the long run profits *do* tend to be at the so-called normal or average level.

However, at a given moment of time in a changing, dynamic economy, few firms or industries will be in this long-run equilibrium position. Most will be in the process of making adjustments to the changing circumstances. Thus in some industries, profits will be well above normal, and in others, profits will be well below normal.

It is this fact which leads the firms involved to make the adjustments called for in the service of consumers. The abnormally high profits in some industries are the signal that consumers are calling for more firms to enter those industries. The below normal profits or outright losses in other industries are the signal that consumers are calling for some firms to get out.

The importance of this signal system can be illustrated by the life-history of the ball-point pen. When Reynolds produced the first ball-point pen, he sold it for around \$12.95. It is doubtful if, even then, production and distribution costs were as much as one-fourth of the selling price. By any measure known to man, Reynolds was receiving abnormally

high profits. However, the signal went out loud and clear and soon every pen company had its ball-point pens and new firms entered the field almost daily. Within a short period of time, the price of the pens had dropped below five dollars. Now I am writing this paper with a pen that I bought with nine others for a total cost of \$1.19 for the 10.

Suppose the government, shocked by Reynolds' profits, had insisted on recapturing all of his profits above a return of say 6 per cent on capital and made this a universal rule for the industry. Or suppose that Reynolds' workers had insisted on their wages being increased until his profits were brought down to normal. In either case, the price of ball-point pens might well be still \$12.95. But because the abnormally high profits were permitted to serve as a signal to other producers, the results were as we have described them above.

A Vital Set of Signals

The above normal profits then are not "too high" in any value sense, nor are the below normal profits "too low." They are simply signals and very, very important signals as well. In fact, the efficiency of the economy is completely dependent upon their not being silenced or modified.

Nor is this signal system costly to the consumer it serves. Abnormally high profits in some areas tend to be balanced by below normal profits in other areas and the net cost to the consumer is minimal.

If the consumer insists on recapturing the excess profits, surely he is compelled by logic and conscience to indemnify those who are getting below normal profits and the net gain would be of no immediate significance. The price of doing so, though, would be the destruction of the combined signal and incentive system of the free market — and hence his hope for a free and prosperous society.

In the same way, the worker who would demand that wages be tied to profits, that the employer share his excess profits with him, should be compelled by logic and conscience then to take wage cuts whenever his firm is making below average profits. Thus presented, few workers would have much enthusiasm for the arrangement.

In sum, then, we gain little insight into what has happened to profits by asking if some firms are making profits above or below the average. Such deviations from the average are a normal and indispensable part of the functioning of the competitive market economy.

The Concept of Market Structure

We seem now to have thrown out all meaningful ways of evaluating profits, of determining what has happened to profits. Perhaps we should give up in despair and turn our attention to some other problem.

Fortunately, there still remain certain indirect approaches to the problem that do have meaning. Let me go back to a phrase I have used several times, “the competitive market.” *It is literally true that profits never can be said to be too high or too low in a competitive market.* In such a market, forces are always at work to bring profits back to the normal level and the net cost to the consumer is minimal.

But what if the markets in which the firms deal are not competitive? What then of profits?

If a given firm has a monopoly of its market, it may be able to make above-normal profits and to make them indefinitely. The signal is going out, but the other firms are prevented by the monopoly power of this one firm from answering the signal. Under these circumstances it is quite meaningful and realistic to say that profits are “too high.”

Again, if the firm is selling in a competitive market, but buying its resources (for example, its labor services) from units that are

not competing, it may suffer from a cost squeeze on profits that will cause those profits to be persistently below normal. In the short run, the owners of the firm will suffer, and in the long run, the consumer will suffer as firms will get out of the industry in response to a basically false or distorted below-normal profit signal. Here again it is quite meaningful and realistic to say that profits are "too low."

Our search then must take us to the markets of this country, to ask whether product and resource markets are less or more competitive than they once were or than they could or should be.

Product Markets

Let us begin with the selling side, with product markets. It is commonly assumed that American business was once small in size and competitive, but that it is now large in size and monopolistic.

This is a complex subject which cannot be explored fully in limited space. However, here are my views in brief form.

(1) I believe that it can be demonstrated that product markets in America are more competitive today than they have ever been. My reasoning is that, though firms have grown in size, markets have grown even more rapidly. The absolute size of the actual

firm is unimportant. What is important is its size *relative* to the industry or market in which it operates.

Improvements in transportation and communication and the development of substitutes for almost any and every kind of product have so widened markets that neither A & P nor U. S. Steel has as much real market power as did the small town grocery store and the local iron foundry a century ago!

(2) I believe that such instances of monopoly as do arise tend to be rather quickly erased by the dynamic changes in the economy.

(3) I believe that almost all instances of *persistent* monopoly power as do exist can be attributed to positive protection of that power by government. The protection takes such forms as price supports in agriculture, tariffs, fair trade laws, special franchises and licenses, subsidies, and so on.

(4) I believe that the unhindered market naturally tends to be a competitive market. Monopoly is not only unnatural, but can be maintained only with the positive support of government.¹

If what I have written above is true, then we can add that profits are not generally "too high" in the American economy, except in

¹ See my "Is Economic Freedom Possible?" in THE FREEMAN, April 1963.

those cases where the government is giving direct or indirect support to monopoly power. (Profits can be "too high" even if they are in fact losses! Thus, if the government is subsidizing or otherwise aiding a declining industry, losses will be less than in a free market. Thus, returns to the firms involved are "too high" in that they do not accurately reflect the true signal being sent out by consumers. Excess resources will be held in the industry long after the consumer has ordered them out! A case in point would be agriculture.)

Resource Markets

We turn now to the buying side of the markets in which firms operate: to the resource markets. Are these markets less or more competitive than they used to be, or than they can or should be?

This too is a complex question, and again I can do no more than summarize my argument.

(1) I believe that resource markets also tend to be competitive in the absence of government intervention. Improved transportation and communication have expanded alternatives confronting both the buyer and the seller of most resources, including labor.

(2) However, governments have been particularly active in labor markets in the last 30 years and

have done much to force the employer to hire his labor in non-competitive markets. Governments have done this through direct setting of wages, hours, and working conditions and by encouraging, protecting, and giving special privileges to trade unions.

(3) I believe that the effect of this has been to make of the trade union a government-sponsored instrument for distorting the workings of the market. It has resulted in a never-ending cost squeeze on profits in large segments of the American economy.

If what I have said is true, then it follows that what has happened to profits is that they tend to be "too low" in those segments of the American economy most influenced by trade unionism and by wage legislation. Thus the high profit signal is somewhat muffled and resources may not be entering the industry at the rate consumers are ordering them to!

The Impact of Taxes

This tendency is reinforced by the taxing process. Both the fact and the form of profits taxes tend to reduce the effectiveness of the signal system. The effect is one-sided in that profitable industries have their returns taxed by the government, but unprofitable industries do not receive subsidies — nor should they. Permission to

do some spreading of losses does not help firms in industries that are expanding and generally profitable, year after year.

Moreover, the unrealistic handling of depreciation leads to persistent overstating and hence over-taxing of business earnings.

Summary

I have argued that most of the usual ways of evaluating profits are meaningless. I have suggested that profits best can be examined *indirectly*, by weighing them in the context of the markets in which firms buy and sell. I have expressed my belief that the greatest distortion in those markets in America today is in the labor areas, and that, as a consequence of this distortion and of other factors, profits tend to be "too low" in large segments of American industry.

I would add that this fact goes a long way to explain the persistence of unemployment in an apparently prosperous nation. The general business climate created by government interventions, particularly in the labor markets, is not one that creates buoyancy and

optimism in the business world. Thus, the economy tends to sag and adjustments are not quickly or easily made. More directly, unemployment tends to be concentrated in those industries and those areas most influenced by aggressive union action in the last 30 years.

If these "too low" profits persist, the economy is in danger of being moved even further from the free market ideal. The apparent failure or refusal of private enterprise to "do the job" will lead Americans to demand more and more government intervention (witness the demand for deficit spending to "get the country going.")

The solution lies not in raising profits by granting special favors to business (as is so often suggested) but in reducing or eliminating the special handicaps business has faced in its labor markets and in other ways during recent decades.

If this is not done, we are in danger of losing our free economy; and when economic freedom is lost, all other freedoms must follow, sooner or later. ♦



John Chamberlain

PROFITS are, in effect, not added into price but *taken out of the cost.*

I Want My 63¢ Back!

EDITOR'S NOTE: James Herz is a 17-year-old high school senior living in Maryland. On three occasions last year, while working to help out a friend, he earned a total of \$24 from which the employer was required to withhold Maryland income taxes amounting to 63 cents. The following letter relates to that situation.

March 28, 1963

Comptroller of the Treasury
of the State of Maryland
State Treasury Building
Annapolis, Maryland
Sir:

I still want my 63¢ back. I asked for it when I mailed you my 1962 income tax return showing that I owed no tax for that year even though you had collected from my employer an amount assumed to be taxes due from me. When that request was refused I filed a formal refund claim, again without success. Nevertheless I still want my 63¢ back.

There is a fellow working for you by the name of Benjamin F. Marsh. He is the Chief of your Income Tax Division. On March 26, 1963, he wrote me a letter about my formal refund claim saying, "We will not refund to you the sum of 63¢." It impresses me that he said "we will not," and he didn't say "we cannot" make the refund. I feel as though I am being pushed around and it is not right for an official of the state

to do this to a citizen without just cause, no matter what the circumstances are. Ordinary citizens are important too, including those who are only high-school students.

The letter Mr. Marsh wrote to me quotes a part of the Annotated Code of Maryland (Section 310, paragraph (a), of Article 81) which he says gives you the duty or the right or the reason or the excuse (he didn't say which) to refuse to make my refund. According to the quotation Mr. Marsh sent me, the law says amounts less than \$1 shall not be refunded (though amounts more than \$1 shall) to any person who pays more tax than is found to have been due. I think this may seem to give you an excuse for refusing me my refund (not a good one), but it doesn't burden you with the duty of refusing me, and it doesn't give you any right to refuse me, and it doesn't give you any reason to refuse me.

I am not a person who has paid more tax than is found to have been due. So obviously I am not a person to whom this part of the law applies. In the first place, I am not the "person who has paid" the 63¢ we are arguing about. I never had my hands on it. My employer was required by the law to withhold it from me and to send it to you, and that is how you got it, and I never had anything to do with it. On top of that, I am not even a person in whose case more has been paid than is due. No tax for 1962 has ever been due from me to the State of Maryland. This isn't even a case involving taxes, and the refund I am asking for won't even be a tax refund when you finally send it to me.

More than that even. I understand I am not even

a person who was required by law to file a 1962 tax return. I did it only to get my money back and this much by itself was an imposition on my time and on my good nature.

Now all these things make me feel that you people have told me your excuse for giving me a hard time, but, you didn't tell me it was your duty to give me a hard time, and you didn't say anything about your right to do it or your reason for doing it.

My position, on the other hand, and believe me I understand it, is based on a sound principle which is that under law no payment should be collected by the state in the name of taxes from anybody who doesn't owe taxes, and the size of the amount involved doesn't make any difference. I have already spent more than 63¢ arguing with you, and you have already spent more than 63¢ arguing with me, but it has been explained to me that at least in the case of my expenses I must incur them as a decent citizen. There are two reasons for this. One is that I have an obligation to educate myself about the proper relationship between an American citizen and his governments. The other is that, if necessary, I must be willing to bear some expenses in order to educate folks like your friend Mr. Marsh, or at least to remind them when they start forgetting the things that are important. What explanation there can be for your people spending more than 63¢ in an argument like this escapes my imagination, and I haven't found anybody else who can understand a decent reason for it.

Now I am going to try to solve your problem for you

and also get my 63¢ back so that we can be through with this expensive argument.

With this letter I am sending you my amended State of Maryland income tax return for 1962. This return shows, just like the first one did, that I owe no income tax for 1962, but that 63¢ was withheld from me and collected by you nevertheless. It differs from the return previously filed in that I am sending you with this amended return a postal money order for 38¢, payable to you, and there is reported on the return that this 38¢ has been paid to you on account of 1962 taxes bringing the total overpayment to \$1.01. Finally, this amended return respectfully requests the refund of the \$1.01 overpayment.

This should enable Mr. Marsh to escape the awful consequences of making the forbidden 63¢ refund, and at the same time it should enable me to get my money back.

Please do not quote me any law which prohibits your accepting this 38¢ when paid, as it is in this case, for the purpose of breaking the log jam. Also please do not quote me any law which gives you any right or any excuse to complicate this matter any further by any other means. And please do not tell me you have a right to keep my 63¢ and use it just because you think you have no right to send it back to me. It is mine no matter how long you hold on to it.

Now please send me my \$1.01.

Respectfully,

James Herz

Kakistocracy

LEONARD E. READ

KAKISTOCRACY is one of those words so seldom heard that it might be taken to represent something that never existed. It means "a government by the worst men." Lowell gave the term an intolerant but more colorful definition, "a government . . . for the benefit of knaves at the cost of fools."¹ Are we approaching this form of government, or have we already embraced it unawares? Once upon a time we thought of our nation as a republic, even after it had become in practice a democracy. But whoever thinks of the U.S.A. as a kakistocracy? The word is not even known to most of us.

The purpose of this paper is to highlight our kakistocratic tendencies and to offer a few thoughts as to how they can be halted and reversed.

A communist society, to my way

¹ *Letters of James Russell Lowell*, ed. Charles Eliot Norton (Vol. II, 1893), p. 179.

of thinking, qualifies as a kakistocracy. Its coercive theme, "from each according to ability, to each according to need," strikingly parallels a form of government in which knavery exploits ignorance. This observation requires some explanation.

Regardless of the descriptive term—communism or welfare statism—the redistributionist philosophy in practice presupposes the existence of three classifications of persons, the archetypes of which are: (1) the person with "ability," that is, the one from whom honestly earned property is taken, (2) the person with "need," that is, the one to whom someone else's property is given, and (3) the person in command of the instruments of compulsion, that is, the authoritarian.

The first archetype: The persons whose property is forcibly taken evince neither knavery nor foolishness unless they are "taken

in" and thus become a party to the state welfarist tendency. Those who are taken in appear to be on the increase; behold the well-to-do as well as the business "leaders" who petition government for federal urban renewal and countless other special privileges. Thus do our "best educated" people exhibit both knavery and foolishness.²

The second archetype: Perhaps it is foolishness more than knavery that prompts the innocents to accept something for nothing. As they permit government to assume the responsibility for their security and welfare, they relieve themselves of self-responsibility, the removal of which depersonalizes the individual and thus destroys him.

The third archetype: Authoritarians, and all who support the forcible taking from some to distribute to others, exemplify both knavery and foolishness. That they see some benefit to themselves in this action is self-evident for, if they saw no benefit, they would not act in this manner. Nor

need the benefit they see be entirely material; they can be and often are motivated by the thirst for power or popular acclaim or a mixed-up sense of what is called social justice. To feather one's own nest, that is, to gain self-satisfaction at the expense of others, regardless of the motivation, is knavery, pure and simple.

Foolishness shows forth in the authoritarian in that he unintelligently interprets his own interest. He fails to see that he cannot develop, emerge, improve himself while he is riding herd over others. The authoritarian who has you on your back, holding you down, is just as permanently fastened on top of you as you are under him. In that sense, the slave owner is enslaved, as is the slave.

How Far Have We Gone?

So far as this paper is concerned, it is not necessary to outline in detail how far down the communistic or from-each-according-to-ability-to-each-according-to-need road we Americans have come. A reading of the ten points of the *Communist Manifesto* should convince anyone that we are headed into a kakistocracy.³ Instead of spelling out the detail,

² Intolerance and exasperation incline many of us, like Lowell, to categorize persons whose ideas and notions we think inferior as knaves and fools. This is inferiority showing through in ourselves. There is some knavery and foolishness in the best of us; these are not exclusive traits in the worst of us. It is on ideas, not persons, that we should hang our labels.

³ For a listing of the ten points, ask for "The Communist Idea" (Part I) from the Foundation for Economic Education, Inc., Irvington-on-Hudson, N. Y.

let's examine the recent breakthrough of gambling as a means of financing coercive (governmental) welfarism. Should this gambling idea take hold, there would be no doubt that we had arrived at a political situation founded on knavery and foolishness:

New Hampshire's political apparatus has recently enacted a state-run sweepstakes. This is the first gambling operation of the lottery type to be legalized in the United States in the twentieth century.

Other states are now under pressure to follow in New Hampshire's footsteps. A national lottery, long proposed, gains support. The idea of gambling to finance government is being taken seriously.

First, a word about gambling in general. If anyone wishes to risk his savings or bread-and-butter money in games of chance, that would appear to be his own business. Neither I nor any combination of us, through government or otherwise, have a right to inhibit or prohibit gambling, regardless of amount. People learn when they suffer the consequences of their own actions. To relieve men of their follies, as Emerson suggested, is to people the world with fools.

Gambling falls into two broad classifications. There is the penny ante or for-fun type of gambling

like "a tenth" at bridge or the "two-bit nassau" at golf, or a dollar on the homecoming game. All that one participant gains another gambler loses.

Then there is the I-mean-business or serious type of gambling, the professional variety. This is the kind with the "kitty" or "house take" or "pinch" as found at race tracks and gambling houses, the winnings from which *never* add up to the total losses. If the game lasts long enough, the "kitty" will, with mathematical certainty, get everything.

If one wishes to gamble for fun, or if he regards the "house take" or "kitty" or "pinch" as an entertainment charge, all well and good. But to gamble as an economic means is sheer foolishness; and to sponsor it as a political means is nothing short of knavery. To grasp this point, one needs only reflect on the impossibility of a society composed of gamblers and no one else.

Some churches and private charities resort to bingo and lotteries as a means of raising revenue. I do not claim that they have no right to do this; but I must point out that, by making this a serious business, they put their institutional approval on the house-take type of gambling as an economic way of life. I *know* that this is bad economics; I doubt that

it is good theology; to me, it is spiritual abdication and, thus, a sign of decadence.⁴

In a sense, government is the secular high priest. Ideally, it is the agency which society uses to protect economic and other rights against fraud, violence, and the like in the interest of a common justice. When government itself becomes unjust, when it turns from protector to predator, or when it invites gambling as an economic means of financing its operations, it divests itself of respectability. When government does these things, it sanctifies *and fosters* injustice, predation, and economic nonsense! When this point is reached, it has become a government in which knavery and foolishness take over; it has become a kakistocracy, unworthy of respect.

⁴ Why is it that so many churches and governments can adopt gambling with so little criticism? True, the critical faculty as related to gambling is not generally sensitive. But, equally important, these churches and governments are not sufficiently esteemed in the spiritual and juridical areas over which they presume to preside; their laxity is not in conflict with the little that is expected of them. To put this point in bold relief, merely imagine that FEE, a miniature institution dedicated to the high principles of freedom, should adopt bingo or lotteries as a means of raising revenue. In my opinion, all present supporters, financial and ideological, would desert our effort, so shocking would be the contrast between principled expectations and the unprincipled performance.

A False Hope that Spreads

The recent New Hampshire breakthrough is symptomatic of a systemic disease: the blind hope of getting something for nothing. This blind hope is not at all peculiar to the Granite State; New Hampshire is simply giving legal expression to gambling as a means of obtaining more revenue to relieve the financial pressure which has been and is being brought on by government welfarism. Actually, New Hampshire's gambling gimmick differs not a whit in principle from the action in New York where the racing season was recently extended for no other purpose than to add to the state's revenues. The same indictment can be leveled at numerous other states.

The states, as well as all municipalities, are suffering from political schemes originating, on the one hand, with the foolish hope of something for nothing and, on the other, with the knavish claims on the part of some that they know how to make this hope a reality. These schemes — building bathtubs for Egyptian camel riders, paying farmers for not farming, "social security," federal urban renewal, three men on the moon, and so on and on — have necessarily resulted in a dollar of depreciating value. The price level and, thus, the budgets of local

government, in dollar terms, have risen year by year, resulting in an inevitable outgo-income squeeze. The something-for-nothing hope coming home to roost!

Grants-in-Aid

Proof that economic lessons cannot be learned by those who have no aptitudes for economics is the extent to which local officials and those who vote them into office have been taken in by more of the self-same knavery which has already spelled their fiscal undoing. Knavery showing forth at the federal level has persuaded the innocents at the local level that the federal government can forcibly take funds from local-ites and give part of the funds back to them, provided that the local-ites match these federal "grants-in-aid," that is, match their own money! State and local governments have fallen for this political legerdemain on a grand scale, mostly as a response to such utter foolishness as, "We're paying for it, so we might as well get our share."⁵ Thousands of local units are in a fiscal mess because they joined the knavery-foolishness combination with its inevitable day of reckoning. That day has come and gone; all that remains is to seek a remedy.

⁵ See *Clichés of Socialism* (Irvington-on-Hudson, N. Y.: Foundation for Economic Education, Inc.), p. 57. \$1.00.

More of the Same

Now, what is the remedy we hear about? It's simply more of the very same medicine: gambling, an uneconomic means to finance uneconomic ends!

Omit New Hampshire; its gambling system is approved but not in operation as this is written. Take, instead, New York; the Empire State is experienced in the gambling business. The "kitty" or "house take" here is 15 per cent on horse-race betting, the take divided between the race track owner and the sovereign state of New York. Place a \$2.00 bet. What's left? \$1.70! Add 30¢ and place another \$2.00 bet. How many bets before the "kitty" has all of the \$2.00? Forgetting the admission and the "breakage," what but knavery could account for such a practice and who but foolish persons can regard it as making economic sense?⁶

I have made several vain attempts to get statistical data about national lotteries in decadent countries. Little more is uncovered than, "All the proceeds go for welfare." Sometimes education is the excuse offered, as in New

⁶ Suppose your horse pays \$2.64. You will be paid in the highest amount divisible by 5, or \$2.60. The leftover pennies are called "breakage." In New York the state picks up several million dollars annually this way. Peanuts, of course, but nonetheless interesting.

Hampshire. Note well that all our gambling schemes use precisely this same misleading lingo — the knavery-foolishness combination again. Any doubt? If so, assume that the U.S.A. enacts a national lottery. The preamble of the legislation will say “to aid education” or something considered good and noble. Not in the wildest imagination would the preamble read “to pay farmers for not growing tobacco” or any other such nonsense.

Yet, it makes not the slightest difference what purpose is set forth in the preamble. If the lottery loot is credited to education by the federal bookkeepers, then it merely releases a like amount for payment to farmers for not growing tobacco, or whatever. This is precisely like our foreign aid type of “reasoning” where we give food, rather than guns, to communist countries on the ground that we want them to have food but not guns. By so doing, we merely release for the purchase of guns what otherwise they would have spent for food.

In New Hampshire or New York or other places where the states take their gambling cut, we note no reduction in other forms of taxation. These monies are used only to add to the state's total take of the peoples' earned income. Politicians who contrive such revenue trappings are, by

definition, utterly lacking in fiscal sanity.

Some people — “I am not passing on gambling,” each hastens to add — argue that a government lottery is all right on the ground that it is voluntary: one does not have to participate unless he wishes. This type of “logic” could as well condone legalized prostitution as a source of government income because one does not have to participate unless choosing to do so. A person who leans toward libertarian principles should never get trapped into thinking that an act is good simply because it is private and/or voluntary. Many evil actions are both private and voluntary.

A Regressive Tax

Point II in the *Communist Manifesto* calls for “a heavy progressive or graduated income tax.” This we have in the U.S.A. — up to 91 per cent! It would seem the better part of wisdom to repeal this unprincipled Amendment to our Constitution, but we should bear in mind that unprincipled taxation is but an inescapable consequence of expenditures for unprincipled governmental activities. For we cannot be rid of the effect without first ridding ourselves of the cause. The national debate, however, has not as yet engaged the cause aspect of the

problem — only talk as to how to “cushion” the effect. We are ignoring the cause and are bent on contriving new forms of taxation to pay for the unprincipled activities: gambling, of all devices! Yet, we must confess, this miserable means aptly fits state welfarism.

A lottery, be it state or national, is regressive, the opposite of progressive taxation in its incidence. The progressive principle gets at the wealthy: the *more* income, the greater is the percentage of government take. The regressive principle gets at the poor: the *less* income, the greater is the percentage of government take.

A lottery-for-revenue need not, *necessarily*, be regressive, but in practice it is. Merely observe the lottery hawkers on the streets of Paris or Rio or Montevideo or Geneva or wherever. Who are the buyers? The wealthy? The middle class? Indeed not! Anyone sensible enough to have stashed away a competence for himself isn't likely to be taken in, to any serious extent, by the “kitty” or “house-take” type of gambling. The buyers of lottery tickets are the poorest people in the land — frantically trying to escape from their poverty by “hitting the jack pot.” And, why not? Many of their spiritual priests have advocated the practice, and their secular

priest — government — has done likewise. To top it off, the welfare state has assured them of food, shelter, and clothing should they plead distress, and the cause matters not; it can be gambling or whatever.

***Hoodwinking the Poor
Is Knavery at Its Worst***

Regressive taxation coupled with progressive taxation only adds insult to injury. It isn't that the poor should not be taxed; *it is that they should not be hoodwinked*. Proportional taxation, rarely discussed, as distinguished from regressive and progressive taxation, calls for the same percentage take of all incomes, be they small or large; in that vital sense, it treats the poor and the wealthy alike. But to play political tricks on poor and gullible people, such as the “kitty” type of gambling taxation, is nothing less than pitiful; it is pure knavery. Even though many very low income people may never understand the equity and the justice of proportional taxation, at least their innocence and/or foolishness would be dealt with honestly. Whenever innocence and foolishness are exploited, there we shall behold a social decadence; there we shall witness kakistocracy as surely as in the Roman Empire when bread-and-circuses — knav-

ery — held sway over mass foolishness.⁷

A Natural Aristocracy

Is there an antidote for kakistocracy? There is, indeed! It is what Jefferson called “a natural aristocracy among men,” founded, as he suggested, on “virtue and talents.” But since the idea of a natural aristocracy is about as foreign to current discussions as is the term kakistocracy, some elaboration is in order. Let me refer to a bit of personal background.

Born near the close of the 90’s and of parents struggling to make a go of it on a small, Midwestern farm, I was reared in the wonderful world of work with all the fundamental lessons it had to teach. I learned the relationship between sweat of the brow and a pint of milk; I knew that each ear of corn was paid for at the end of a hoe. All that we owned was hard-gotten and, as a consequence, the little we had was hard parted with.

If there were not many con men who tried to take us in, it was be-

cause the detection of phoniness was the price of survival. The conditions in which we lived bred into us an unrelenting skepticism. To be taken in by deception was a disgrace; to be “made a sucker of” was to be identified with the unfit.

Our country school taught mental arithmetic, that is, how to do “figures in your head.” A good pupil could do 89 times 91 “in his head” nearly as easily as 2 times 2. This type of training made it hard on phonies; it was good protection against knavery.

While we didn’t know very much about the wide world, we did have many simple beliefs. I chuckle now to think how my dad would have reacted had a college-bred bureaucrat dropped by, proposing to pay him for not growing crops. My dad knew little about political economy as taught now, but he likened all something-for-nothing schemes to the unauthorized shell games at county fairs to fleece the rural yokels. He would have “laughed his head off” had someone proposed to secure his old age by forcibly taking funds from him, spending the proceeds on moon shots, and putting an IOU in the cash box. Nor did my dad know how to monetize debt; but he didn’t believe in counterfeiting, even when legalized.

There was just as much ignorance, naiveté, gullibility, foolish-

⁷ Simony, the exploitation of human weaknesses such as the “sale of indulgences,” is, according to Canon Law, a very grave sin and simoniacal ecclesiastics may be excommunicated. In what manner does the exploitation, by either state or church, of the propensity to gamble differ in principle?

ness, knavery in our neighborhood — perhaps more — than there is now. Why, then, did not these weaknesses rise to the top and take over the situation as is now the case? Well, they simply could not flourish very well among hard-working, self-responsible, God-fearing, skeptical folk. Knavery can thrive only where foolishness lacks strong opposition; it is hopelessly out of business where there is a natural aristocracy of virtue and talents.

Fungi, for example, will flourish on a muck heap. They do not thrive everywhere, not because of the absence of fungus spores, which are always present, but because there are many situations where the spores cannot take hold.

We do not “catch cold.” The germs are in all of us; they are omnipresent. But let one’s resistance — health — diminish only slightly and, presto, a cold takes over.

Millions are born onto this earth annually, all ignorant. Some do not improve very much and, thus, ignorance, like fungus spores or cold germs, is omnipresent. It is

absurd to think that ignorance can be stamped out, but it can be held in check: *Ignorance — knavery and foolishness — can be kept from taking over a society only as a natural aristocracy of virtue and talents holds it in check.* Let a first-rate natural aristocracy diminish in quality only slightly and, presto, we will have a kakistocracy with lotteries to help in its financing. Virtue and talents, enough to form a thin but stiff social crust, are the lowest price at which a good society can be had. Thus, the only real solution boils down to the emergence and maintenance of a natural aristocracy.

On whom does one work to develop virtue and talents or this natural aristocracy? On others? You might as well accept the task of eliminating every fungus spore on earth! I am the only one who can develop my own virtue and talents, lighting my candle at the flames lit by others. It follows, then, that you can best help me in my project by excelling me in your own. This is the type of individualism that can insure individual liberty. ♦

the Economic Role of **SAVING and CAPITAL GOODS**

AS THE POPULAR philosophy of the common man sees it, human wealth and welfare are the products of the cooperation of two primordial factors: nature and human labor. All the things that enable man to live and to enjoy life are supplied either by nature or by work or by a combination of nature-given opportunities with human labor. As nature dispenses its gifts gratuitously, it follows that all the final fruits of production, the consumers' goods, ought to be allotted exclusively to the workers whose toil has created them. But unfortunately in this sinful world conditions are different. There the "predatory" classes of the "exploiters" want to reap although they have not sown. The landowners, the capitalists,

and the entrepreneurs appropriate to themselves what by rights belongs to the workers who have produced it. All the evils of the world are the necessary effect of this originary wrong.

Such are the ideas that dominate the thinking of most of our contemporaries. The socialists and the syndicalists conclude that in order to render human affairs more satisfactory it is necessary to eliminate those whom their jargon calls the "robber barons," i.e., the entrepreneurs, the capitalists, and the landowners, entirely; the conduct of all production affairs ought to be entrusted either to the social apparatus of compulsion and coercion, the state (in the Marxian terminology called Society), or to the men employed in the individual plants or branches of production.

Other people are more considerate in their reformist zeal. They

Dr. Mises is Visiting Professor of Economics at New York University and part-time adviser, consultant, and staff member of the Foundation for Economic Education.

do not intend to expropriate those whom they call the "leisure class" entirely. They want only to take away from them as much as is needed to bring about "more equality" in the "distribution" of wealth and income.

But both groups, the party of the thoroughgoing socialists and that of the more cautious reformers, agree in the basic doctrine according to which profit and interest are "unearned" income, are therefore morally objectionable, are the cause of the misery of the great majority of all honest workmen and their families, and ought to be sharply curbed, if not entirely abolished, in a decent and satisfactory organization of society.

Yet this whole interpretation of human conditions is fallacious. The policies engendered by it are pernicious from whatever point of view we may judge them. Western civilization is doomed if we do not succeed very soon in substituting reasonable methods of dealing with economic problems for the present disastrous methods.

Three Factors of Production

Mere work — that is, effort not guided by a rational plan and not aided by the employment of tools and intermediary products — brings about very little for the improvement of the worker's con-

dition. Such work is not a specifically human device. It is what man has in common with all other animals. It is bestirring oneself instinctively and using one's bare hands to gather whatever is eatable and drinkable that can be found and appropriated.

Physical exertion turns into a factor of human production when it is directed by reason toward a definite end and employs tools and previously produced intermediary products. Mind — reason — is the most important equipment of man. In the human sphere, labor counts only as *one* item in a combination of natural resources, capital goods, and labor; all these three factors are employed, according to a definite plan devised by reason, for the attainment of an end chosen. Labor, in the sense in which this term is used in dealing with human affairs, is only one of several factors of production.

The establishment of this fact demolishes entirely all the theses and claims of the popular doctrine of exploitation. Those saving and thereby accumulating capital goods, and those abstaining from the consumption of previously accumulated capital goods, contribute their share to the outcome of the processes of production. Equally indispensable in the conduct of affairs is the role played

by the human mind. Entrepreneurial judgment directs the toil of the workers and the employment of the capital goods toward the ultimate end of production, the best possible removal of what causes people to feel discontented and unhappy.

What distinguishes contemporary life in the countries of Western civilization from conditions as they prevailed in earlier ages — and still exist for the greater number of those living today — is not the changes in the supply of labor and the skill of the workers and not the familiarity with the exploits of pure science and their utilization by the applied sciences, by technology. It is the amount of capital accumulated. The issue has been intentionally obscured by the verbiage employed by the international and national government agencies dealing with what is called foreign aid for the underdeveloped countries. What these poor countries need in order to adopt the Western methods of mass production for the satisfaction of the wants of the masses is not information about a “know how.” There is no secrecy about technological methods. They are taught at the technological schools and they are accurately described in textbooks, manuals, and periodical magazines. There

are many experienced specialists available for the execution of every project that one may find practicable for these backward countries. What prevents a country like India from adopting the American methods of industry is the paucity of its supply of capital goods. As the Indian government’s confiscatory policies are deterring foreign capitalists from investing in India and as its prosocialist bigotry sabotages domestic accumulation of capital, their country depends on the alms that Western nations are giving to it.

Consumers Direct the Use of Capital

Capital goods come into existence by saving. A part of the goods produced is withheld from immediate consumption and employed for processes the fruits of which will only mature at a later date. All material civilization is based upon this “capitalistic” approach to the problems of production.

“Roundabout methods of production,” as Böhm-Bawerk called them, are chosen because they generate a higher output per unit of input. Early man lived from hand to mouth. Civilized man produces tools and intermediary products in the pursuit of long-range designs that finally bring forth results which direct, less time-consuming methods could never

have attained or only with an incomparably higher expenditure of labor and material factors.

Those saving — that is consuming less than their share of the goods produced — inaugurate progress toward general prosperity. For the seed they have sown enriches not only themselves but also all other strata of society.

It benefits the consumers. The capital goods are for the owner a dead fund, a liability rather than an asset, if not used in production for the best possible and cheapest provision of the people with the goods and services they are asking for most urgently. In the market economy the owners of capital goods are forced to employ their property as if it were entrusted to them by the consumers under the stipulation to invest it in those lines in which it best serves those consumers. Virtually, the capitalists are mandataries of the consumers, bound to comply with their wishes.

In order to attend to the orders received from the consumers, their real bosses, the capitalists must either themselves proceed to investment and the conduct of business or, if they are not prepared for such entrepreneurial activity or distrust their own abilities, hand over their funds to men whom they consider as better fitted for such a function.

Whatever alternative they may choose, the supremacy of the consumers remains intact. No matter what the financial structure of the firm or company may be, the entrepreneur who operates with other peoples' money depends no less on the market, that is, the consumers, than the entrepreneur who fully owns his outfit.

There is no other method to make wage rates rise than by investing more capital per worker. More investment of capital means: to give to the laborer more efficient tools. With the aid of better tools and machines, the quantity of the products increases and their quality improves. As the employer consequently will be in a position to obtain from the consumers more for what the employee has produced in one hour of work, he is able — and, by the competition of other employers, forced — to pay a higher price for the man's work.

Intervention and Unemployment

As the labor union doctrine sees it, the wage increases that they are obtaining by what is euphemistically called "collective bargaining" are not to burden the buyers of the products but should be absorbed by the employers. The latter should cut down what in the eyes of the communists is called "unearned income," that is, inter-

est on the capital invested and the profits derived from success in filling wants of the consumers that until then had remained unsatisfied. Thus the unions hope to transfer step by step all this allegedly unearned income from the pockets of the capitalists and entrepreneurs into those of the employees.

What really happens on the market is, however, very different. At the market price m of the product p , all those who were prepared to spend m for a unit of p could buy as much as they wanted. The total quantity of p produced and offered for sale was s . It was not larger than s because with such a larger quantity the price, in order to clear the market, would have to drop below m to m_1 . But at this price of m_1 the producers with the highest costs would suffer losses and would thereby be forced to stop producing p . These marginal producers likewise incur losses and are forced to discontinue producing p if the wage increase enforced by the union (or by a governmental minimum wage decree) causes an increase of production costs not compensated by a rise in the price of m to m_2 . The resulting restriction of production necessitates a reduction of the labor force. The outcome of the union's "victory" is the unemployment of a number of workers.

The result is the same if the employers are in a position to shift the increase in production costs fully to the consumers, without a drop in the quantity of p produced and sold. If the consumers are spending more for the purchase of p , they must cut down their buying of some other commodity q . Then the demand for q drops and brings about unemployment of a part of the men who were previously engaged in turning out q .

The union doctrine qualifies interest received by the owners of the capital invested in the enterprise as "unearned" and concludes that it could be abolished entirely or considerably shortened without any harm to the employees and the consumers. The rise in production costs caused by wage increases could therefore be borne by shortening the company's net earnings and a corresponding reduction of the dividends paid to the shareholders. The same idea is at the bottom of the unions' claim that every increase in what they call productivity of labor, (that is, in the sum of the prices received for the total output divided by the number of man hours spent in its production) should be added to the wage bill. Both methods mean confiscating for the benefit of the employees the whole or at least a considerable part of

the returns on the capital provided by the saving of the capitalists. But what induces the capitalists to abstain from consuming their capital and to increase it by new saving is the fact that their forbearance is counterbalanced by the proceeds of their investments. If one deprives them of these proceeds, the only use they can make of the capital they own is to consume it and thus to inaugurate general progressive impoverishment.

The Only Sound Policy

What elevates the wage rates paid to the American workers above the rates paid in foreign countries is the fact that the in-

vestment of capital per worker is in this country higher than abroad. Saving, the accumulation of capital, has created and preserved up to now the high standard of living of the average American employee.

All the methods by which the federal government and the governments of the states, the political parties, and the unions are trying to improve the conditions of people anxious to earn wages and salaries are not only vain but directly pernicious. There is only one kind of policy that can effectively benefit the employees, namely, a policy that refrains from putting any obstacles in the way of further saving and accumulation of capital. ♦

IDEAS ON LIBERTY

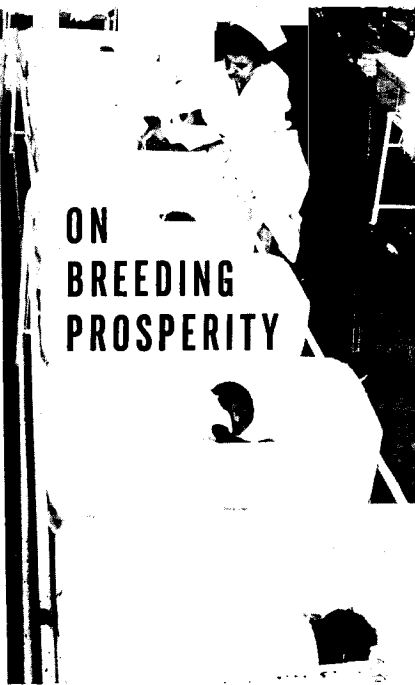
Wrong Problem

A story is told of a motorcycle driver who, on a wintry night, reversed his jacket so that the bitter winds would not come through the gaps between the buttons. The jacket was somewhat uncomfortable back-to-front, but it served the purpose. As he sped along the road, he skidded on an icy spot and the poor fellow crashed into a tree.

When the ambulance arrived, the first-aid men pushed through the crowd and asked a man who was standing over the victim what happened. He replied that the motorcycle rider seemed to be in pretty good shape after the crash, but by the time they got his head straightened out he was dead.

So it goes when people get excited and take quick action to provide a remedy for a problem without clearly understanding what the problem is.

JOHN A. HOWARD, *Federal Aid: Stamped to Disaster*



F. A. HARPER

THE POPULATION explosion in our country and around the world is commonly met with mixed emotions. On the one hand, there is the discomfort of being so pressed together that we stand on each other's feet, elbow our way through crowded subways, become submerged in traffic jams, or find distant recreation forests about as peaceful as Times Square at 5:15 p.m. On the other hand, there is the appeal of more customers for all who believe that a rising population assures prosperity.

Dr. Harper is Secretary of the Institute for Humane Studies at Stanford, California.

Illustration: A. Devaney, Inc., New York

The fact that the population has been rising rapidly during recent decades, and that more is in prospect for some time, seems beyond question. A common prediction is that the present world population of nearly three billion will reach nearly five billion by 1984.

Some authors in a *Science* article a few years ago reported that by extrapolating from past trends of recorded data, the world population will approach infinity on November 13, AD 2026. But the outlook cannot be as gloomy as that. Before that time the trend would flatten out from a new Malthusian corrective because persons would become crushed to death. And even before that, as a university president once reminded us, the population increase will probably terminate before reaching the point of standing room only, due to other obvious reasons.

Leaving these predictions for others to ponder, our present concern is with an economic notion which seems even more prolific than the human organism itself, namely that increasing population assures prosperity. To review the notion briefly, as any restaurant owner or storekeeper knows, his sales and profits are raised by more persons entering his store to buy. And they cannot enter his store without having first been

born. Each birth today, then, means more persons in stores later; diapers will be bought at once, childrens' clothes later, and adult needs on through life. The more the births, the more will have to be sold to meet the growing needs, *ipso facto*, according to this simple reasoning. But on further thought and analysis, is this reasoning sound?

Wants Are Insatiable

Let us begin to analyze it this way: Human wants, over-all, are insatiable. If a President of the United States with "rigorous economy" spends \$111,000,000,000 in a year, it seems probable that he might easily spend the entire national income if he were to let himself go on a spending binge.

Any one person's capacity to eat popcorn at one sitting may have its limits, but there is no known limit to his capacity to own more suits, cars, servants, servants for the servants. . . . So if there is any limit to human wants, it surely lies beyond the horizon of our imagination. This means that the limit on sales in stores, and the like, is set by something other than too few persons. By the same reasoning, more persons do not assure more sales and more welfare. What is it that sets the limit?

The limit to the satisfaction of wants is set by the quantity of

things produced. Should some of production be wasted, fewer wants will be satisfied, but no miracle is available by which to satisfy wants with things not produced. Some persons may get more of the supply and others less, but that is a question separate from the one we are discussing; and in any event it does not make consumption any greater than production.

What Limits Production

The total quantity of goods and other services produced in the nation in a year depends on three things:

1. The number of persons working
2. The number of hours worked per person
3. The output of product per hour

We are considering prosperity, and the effect of an increase in population on prosperity. Our concern is with the welfare of the individual, not the nation. China or India produce more than Switzerland or Canada as a national total, but who yearns for that sort of prosperity? Thus, we can largely ignore from our concern in this connection the first factor of the number of persons, because as increasing population brings more producers it also brings more stores for more consumers to enter. Over-all, persons

as producers are also consumers, and in part storekeepers.

The number of hours worked can also be largely ignored for our present concern. The change over time has not been drastic; it is minor as compared with other factors. We used to point, with pride that might be questioned in certain respects, to the reduction of about three-sevenths in the average hours worked in the United States. Now the careful research of Sebastian de Grazia brings this into serious doubt, when account is taken of the added hours getting ready to work and getting to and from the "forty hours of work." In grandfather's day, most workers when they awoke in the morning were only a pair of overalls and a closed door away from their day's task.

This leaves us only the last point as having much to do with our question, namely, the output per hour of work. What effect does an increasing population have on that?

Output per hour of work is almost entirely a matter of the tools at hand to aid the efforts of those who produce. They are of many types and forms. Some tools aid physical work, and others aid mental work or the processes of spirit, morals, and motivation. In the latter category, especially, there are negative as well as positive

tools. Among the negative tools, I would suggest, are all those economic misconceptions which prevail and persist in the minds of most persons in our society. Among these misconceptions is the notion that increases in population assure prosperity — by which one would have to conclude that even illegitimate children are a contribution to national welfare and thereby worth the mounting costs of public aid to support them.

In our society in the United States, from the standpoint of energy alone, we have devised ways to bring to the aid of the average worker the equivalent of more than thirty diligent slaves to help him. In addition, there are untold ways by which we have harnessed additional help for him which is not measured in terms of energy horsepower. But in measuring increases in economic welfare of persons in the United States over its entire history, or the differences between nations in this respect at the present time, the amount of energy harnessed to aid the average worker serves amazingly well as a measure.

What Raises Production?

The question then resolves into the processes by which tools are brought to the aid of the average worker. In outline, these are the steps involved:

1. Basic discoveries
2. Innovations and adaptations of discoveries
3. Savings invested in tools
4. Effective use of tools

Nothing is so vital to the whole process of progress in the development and use of tools of production as is liberty of individual persons in society. Slavery in any of its varied forms and by any name is poison to the processes required. If slavery has any advantage anywhere over paying free-workers the prevailing wage, which is doubtful, it is for menial tasks like piling stones upon one another to build pyramids, and the like. Tools once produced can be enslaved, but enslavement of mankind is birth control at its worst for tool-creation.

Thinking now of a single newborn babe in the neighbor's family, the question at its core can be tested by this simple question: Does the fact of his birth as one more census unit add one iota to any of these four parts of the job as compared with any other person previously born and already in our society? He may turn out to be a discoverer, but is there any reason to expect him to be more so than a random selection of a person already here? Any more an innovator or adapter than someone already here? Any more a saver and investor? Any more an effi-

cient user of tools? I see no reason to expect him to be superior to another baby born yesterday.

The final and important fact is that at birth each addition to the population automatically reduces the tools available per person in the population. At birth, in other words, the little precious is clearly an economic parasite who dilutes rather than enhances welfare. The way it does this is clear from a simple analysis.

In the United States at present the investment in production assets is over \$20,000 per production worker, both in manufacturing and in agriculture. This represents the "more than thirty slaves" the average worker has at his command to aid his own efforts in production. If we assume for sake of illustration that there were a hundred workers in some isolated society who have an average of \$20,000 of tools to help them, and two lone survivors of a shipwreck — about the current annual rate of population increase in the United States — float to the island to join them, the tools per worker immediately decline to about \$19,600. And with more shipwreck additions, it would decline more and more until it would eventually sink the island into starvation.

It may be noted, of course, that tools can be added to the pile in use. But whatever the original

hundred persons invent, create, and add must not only replace the wear that goes on year by year, but must be shared with the immigrants. The additions to the population will add to the average tools per worker only after they have themselves saved and added to that society more than \$20,000 worth of effective tools in use. Until their contribution reaches \$20,000, they are in this sense economic parasites on the society they have joined.

How soon will it be until the neighbor's newborn babe can add the required \$20,000 to the nation's tools-in-use? That is our question in its essential form. We could go on down the street to other neighbors' newborn babes, but that merely compounds our question in magnitude rather than to change it in essence.

The merchant selling diapers may do quite well for a while when this goes on and on in the nation, but only at the even greater loss of business by someone selling other things which the parents cannot now buy instead. Soon, by reason of discouragement if not bankruptcy, they will have to close up shop and go into business selling diapers, or something. The advantage to the diaper salesman then disappears, and he is ready to read some dusty article like this to see why his forecast of

hope from help by the storks went afoul. He is then ready to ponder the question which should have occurred to him at the outset: If population increases cause prosperity per se, why were countries like China and India in persistent poverty over untold centuries?

In a country of extremely sparse population, special circumstances can exist whereby an increase in population can cause enough increase in the efficiency of use of tools they already have to result in rising welfare for a time. But this is not the situation in our nation, or perhaps any nation in the world today.

In summary we may, therefore, herald with goodwill the coming into our society of newborn babes, but the joy should not be because they will automatically bring with them any sort of economic welfare. When they come, they will not bring with them the \$20,000 of capital equipment needed to carry their share of productive means now operating in our society. Each of them will dilute the ratio of tools to persons, which is the only real base for prosperity. Each of them, or someone else, will have to save and provide more than \$20,000 of tools before their presence will have the effect of increasing the average prosperity of the nation. ♦

MAN'S DESTINY—

Forced or Free?

WILLIAM HENRY CHAMBERLIN

THE UNDERLYING basis of a free political system and a free economy is moral. Unless man is inwardly free—able to distinguish between good and evil, right and wrong, capable of making intelligent and prudent decisions in his own interest on his own account—the whole fabric of free institutions rests on a foundation of sand. This conception of the self-reliant individual, able within reasonable limitations to shape his own destiny, with the choice between success and failure mainly in his own hands, has been under heavy attack from many modern theorists.

They would substitute for the self-reliant individual who helps himself the image of a semi-robot who must be helped and guided in every step he takes by the state and its proliferating welfare agencies. Consider, for example, how America's young people are

wrapped in a thick wadding of cotton-wool protective legislation.

From the colonial and frontier days down to the more recent times, when a tide of mostly poor immigrants from Europe swelled the population, America's national success story has been an amalgam of the individual success stories of boys, born in poor families, who started at an early age to help their parents and themselves by taking any available odd jobs, combining this with school and college study, and later becoming more or less prominent business and professional men. Looking back to their boyhood, these men almost invariably recognize that this early experience in work and self-reliance was immensely beneficial to them in adult life.

But today's well-meaning lawmakers have added so many minimum wage and other restrictions that it is impossible, in many cases, for an employer to hire young people without paying

Mr. Chamberlin is a skilled observer and reporter of economic and political conditions at home and abroad. He has written a number of books, has lectured widely, and is a contributor to *The Wall Street Journal* and many nationally known magazines.

them more than they are worth. Here is one of the most obvious artificially created causes of youth unemployment and of juvenile delinquency. For it remains just as true now as in the days when the proverb was more frequently quoted that Satan finds plenty of mischief for idle hands.

Marx and Freud

Two European thinkers, Karl Marx and Sigmund Freud, have done much to undermine the ideal of the free responsible individual by representing man as a tool in the hands of blind impersonal forces, incapable of making moral and rational choices and decisions. In Marx's view of the world, the overshadowing issue is the struggle between the bourgeoisie and the proletariat, which is fatalistically predestined to end in the triumph of the latter and the establishment of socialism. Besides being a dogmatic atheist, Marx brushed aside moral ideas as nothing but inventions of the capitalists to justify the continued enslavement of the workers. His whole philosophy is suffused with implacable determinism and with the conviction that human decisions, judgments, and feelings are the mechanical result of class relationships.

Freud's theory of psychoanalysis leads, although by a different

road, to the same conclusion: that man is not responsible for his actions and is incapable of exercising free will. According to Freud, the subconscious, over which the individual can exercise no control, tends to dominate his character. Another article in the Freudian creed is that all experiences in the stage of infancy are of supreme importance to the individual. These experiences, in combination with his inherited sex constitution, are supposed to shape his character.

To be sure, not many Americans have acquired a firm grasp of the ideas of Marx and Freud. Both authors employ a highly technical style and, with few exceptions, their works are not easy reading. But it has often been the case that ideas, even if fully understood only by a small minority, strongly affect the intellectual climate of an age. The theories of state and society put forward by Rousseau, Diderot, Condorcet, and other French thinkers of the eighteenth century were not generally familiar to the Paris mobs that supported the Reign of Terror or to the recruits who filled the ranks of the revolutionary armies, singing the *Marseillaise*. Yet the connection between the radical thinkers and the course of the French Revolution is close and unmistakable.

"Society Is To Blame"

In the same way, Marx and Freud have done much to undermine and even destroy the belief that man is a free moral agent, who may properly be held answerable for his crimes and vices. Now, the fashion is to attribute every crime, however violent, revolting, and shocking, to some unspecified fault of "society" or to that tired scapegoat, a bad government.

The theories that man is a robot product of his environment and that social welfare measures are an effective cure for individual criminality deserve closer examination than they usually receive. For both fly squarely in the face of visible experience.

A good case could be made for the proposition that it is not slums that make people, but people who make slums. It is not a bad environment that creates bad individuals, but rather, it is vicious and depraved individuals who create a bad environment.

Never in American history has there been so much subsidization, coddling, and spoonfeeding of groups which sociologists and social workers like to refer to as underprivileged. The unemployment figures which are supposed to cause alarm are unconscionably padded; public relief in one form or another is so easy to ob-

tain, and granted with so few restrictions, that few people can be found to perform unskilled and semiskilled jobs. "Collecting security" has become one of the largest and most popular of American unlisted occupations. How else can one explain the discrepancy between official high figures and percentages of unemployment and the near impossibility of getting help in the household or for jobs that pay comparatively little?

There was a time when it would have seemed as absurd for the government to pay a man's rent as to take over his bills for groceries. Now, big new apartment houses, equipped with all modern conveniences, have been put up in all large cities—for the benefit of the "underprivileged," at the expense of the general taxpayer. But in all too many cases these houses have rapidly deteriorated in cleanliness and general upkeep and have become centers of crime and vice. Could there be a better illustration of the basic importance of individual character and the relative unimportance of the much-emphasized "environment"?

I sensed this point from a different angle when, shortly after the end of World War II, I got acquainted with a group of people of German origin whose homes had been in Yugoslavia. They had escaped before Tito completed his

take-over and were living in pretty rough improvised quarters in a suburb of Stuttgart. Although the shacks in which they were living lacked many conveniences, there was no filth or squalor. And on a second visit two or three years later, I found that most of them had advanced from temporary refugee quarters to houses and apartments of their own. Put sturdy, hard-working, self-respecting people of this type in slums, and they would make the slums habitable. Put many of the people who inhabit slums into modern apartments, and the process of deterioration is quick to set in.

***Assuming Personal Responsibility:
Some Examples***

There are many illustrations of the changed attitude toward moral responsibility. Two distinguished figures in the nineteenth century, General Ulysses S. Grant and Sir Walter Scott, through no direct fault of their own, became involved in the heavy losses of unsuccessful business ventures of partners. Both worked unremittingly, to the point of shortening their lives, in an effort to discharge every penny of debt for which they felt a moral liability. The preferred course in modern times would be to apply to the Reconstruction Finance Corporation or some other handy govern-

ment agency existing for the purpose of bailing out individuals from the consequences of their mistaken judgments.

Herbert Hoover, although he has fortunately lived far into the twentieth century, has always displayed that keen sense of moral responsibility which was more characteristic of the nineteenth; and he communicated this quality to his sons. At the time he was President, his older son was offered a position at a salary far above what his experience at that time would have warranted. The son's reply was prompt and decisive: "My father's name is not for sale."

There was a time when the American creed of opportunity for all implied the risk and penalty of failure as well as the chance and reward of success. This was the philosophy behind Grover Cleveland's declaration, when it was suggested that the government appropriate money to aid farmers of a drought-stricken area, that "though the people support the government, the government should not support the people."

Now, the fashionable theory is that the government possesses some mysterious, magical, inexhaustible source of wealth, out of which it can and should compensate everyone for errors in judgment or bad luck. Of course, this

theory is as illusory as the South Sea Bubble. Its fallacy was spotted long ago by the French economist, Frederic Bastiat, who accurately described the state as "the great fiction through which everybody endeavors to live at the expense of everybody."¹

Another sign of the times is the widespread use, in some academic circles, of the contemptuous expression, "value judgment," in depreciation of any distinction between tyranny and liberty, good and evil, right and wrong, as exemplified in historical figures. Classical histories are full of studies of the characters of prominent rulers and actors on the historical stage, of balanced appraisals of their virtues and faults, of the strong and weak points in their records. Any approach of this kind is now brushed aside with a disparaging reference to "value judgments."

Misplaced Sympathies

An unfortunate and growing characteristic of life in America's big cities is insecurity of persons and property against the assaults of thugs and criminals. Not infrequently the newspapers publish accounts of assaults, accompanied

by serious injury, of youthful criminals against old men and women. But public opinion seems completely indifferent. There is no insistent demand for more adequate protection and sterner measures of retributive justice. The most shocking, wanton crimes are brushed off as just somehow the responsibility of an anonymous entity called "society."

Indeed, when campaigns of sympathy are aroused, these are usually in favor of the murderer, the rapist, the criminal, not of his victims. This kind of maudlin sentimentality has not been unknown in the past. Mark Twain, who was anything but lacking in the quality of human compassion, hit it off well in this paragraph about the demise of Injun Joe, the murderous outlaw of *Tom Sawyer*:

This funeral stopped the further growth of one thing—the petition to the Governor for Injun Joe's pardon. The petition had been largely signed; many tearful and eloquent meetings had been held and a committee of sappy women been appointed to go in deep mourning and wail around the Governor and implore him to be a merciful ass and trample his duty under foot. Injun Joe was believed to have killed five citizens of the village, but what of that? If he had been Satan himself, there would have been plenty of weaklings ready to scribble their

¹ Reprints of Bastiat's "The State" are available at 10 cents each from the Foundation for Economic Education, Irvington-on-Hudson, New York.

name to a pardon petition and drip a tear on it from their permanently impaired and leaky waterworks.

Government Aid Breeds Crime

Two indisputable facts stand out as impressive refutation of the determinist interpretation of man's character and destiny. Juvenile and adult delinquents, the so-called underprivileged, are cod-dled today as never before in America's history. Federal and state welfare budgets are at an all-time high. Really acute, grinding poverty can scarcely be said to exist. If providing expensive cushions against poverty, indolence, and misfortune were the answer, America today should be a social worker's paradise.

But every year J. Edgar Hoover publishes a new set of figures showing that crime has leaped again. Crime figures and social welfare expenditures have been moving upward in parallel columns, indicating that whatever the answer to crime may be, it cannot be found in ever-expanding social expenditures. A much more logical place in which to look for this answer is in the breakdown

of the conception of the morally responsible individual, equally accountable for his good deeds and his misdeeds.

Whether man's destiny is forced or free; whether he is a robot product of his environment or whether he can shape his environment; whether he is a moral, intelligent being who should be left free to plan his own life or whether he should be considered a pawn, to be planned by the state — these are among the most important questions of our time. Several years ago, it was the fashion to project for America so-called national goals or purposes; a rather futile undertaking because America, like any free society, is many million purposes — all combining toward end results far richer and finer than any totalitarian state has produced.

But it would be a worth-while national goal to rekindle in American public opinion those attitudes and responses — social, economic, and moral — appropriately based on the assumption that man is internally free and, regardless of environment, able to shape his life, for better or for worse. ♦

IDEAS ON LIBERTY

Admiral Ben Moreell

IT MUST NOT be assumed that the profound thinkers who shaped our institutions were advocates of an undisciplined individuality.



THE AMERICAN TRADITION

5. *Of Individualism*

CLARENCE B. CARSON

A TRADITION is not primarily a complex of ideas. It may, of course, be described, explained, justified, or denounced by the use of ideas. Quite often, traditions have been buttressed by elaborate theories, which may lead the unwary to conclude that they are only dealing with theories. Those who did so in the case of the American tradition of individualism would certainly be wrong, for it can only be properly understood as a set of customs, habits, ways of doing things, and social arrangements which, when it came under attack, got full verbal articulation long after it had become a part of the way of life of a people.

In treating individualism as a tradition, it is my intent to deal with it primarily as practices regarding relationships among people. I shall approach it as a way in which people live their lives and maintain and carry on social relations. In this sense, I understand by individualism those social arrangements in which the individual is largely freed from compulsory social relations at some point in life, in which his childhood training is aimed at preparing him for this freedom, in which he is primarily responsible for his own well-being, in which he may contract or enter into a variety of relationships of his own will, in which there is a discernible and extensive private realm protected by law and custom, and in which compulsory re-

Dr. Carson is Professor of American History at Grove City College, Pennsylvania.
Illustration: National Archives

lationships are kept at a minimum. This condition, in turn, would be buttressed by a system of morality within which it had meaning, a code of laws, and definable rights and privileges.

But the American tradition of individualism did not exist in the abstract; it was a concrete way of life with its own particular features. Thus, to understand it we should turn to the history of its formation and development. This approach is advantageous also because it will become more clearly defined by seeing it against the background of that to which it is opposed. The American tradition of individualism lies historically between the corporatism of Medieval and Renaissance societies and contemporary collectivism. Let us, then, examine its emergence from the earlier framework and pursue it to the threatened submergence by present-day collectivism.

Differing Approaches

To trace the history of anything so dependent upon definition as individualism is exceedingly difficult. Almost any statement about it may raise controversy. For example, Jakob Burckhardt declared that in the Middle Ages "man was conscious of himself only as a member of a race, people, family, or corporation — only through

some general category." According to him, the great change came with the Renaissance: "In Italy this veil first melted into air; . . . man became a spiritual *individual*, and recognized himself as such."¹ On the contrary, Maurice de Wulf maintains that Medieval scholastics gave primacy to the individual over any group. Regarding their thought on the relation of the state to the individual, he says that "every human being has a certain sacred value, an inviolable individuality, and as such he has a personal destiny, a happiness which the state must aid him to realize."² "Thus, scholastic philosophy justifies from an ethical point of view the conception of the worth of the individual as against the central power."³

But the Medieval way to the realization of the individual was not individualistic; it was what may be called corporate. Medieval man found his identity in some class, order, or grouping of men. This identity was symbolized by distinctive garb and insignia: the robes of the priest, the *pallium* of the archbishop, the seal of the family or corporation. This cor-

¹ Jakob Burckhardt, *The Civilization of the Renaissance in Italy* (New York: Modern Library, 1954), p. 100.

² Maurice de Wulf, *Philosophy and Civilization in the Middle Ages* (New York: Dover, 1953), p. 223.

³ *Ibid.*, p. 228.

porate identity was signalized by referring to a man as a cleric, a knight, a craftsman, a serf, and so forth. Such rights and prerogatives as Medieval man could exercise were usually derived from his membership in some corporate body: guild, university, monastic or clerical order, and town, to mention a few. More comprehensive but less corporate groupings were the Roman Catholic church and Medieval monarchies.

The movement of an individual from one order or class to another was frequently very difficult. Excepting for church vocations, membership in most orders and classes was inherited. Even particular jobs were handed down from father to son. Land was hardly a personal possession; the rights to it belonged to the family.

Membership in classes, orders, and families carried with it prescribed ideals, beliefs, duties, obligations, and tasks for the individual. The monk might be bound to poverty, chastity, and obedience; the merchant might have to accept an established just price; the vassal owed military service, hospitality, and ransom when needed to his lord; the serf owed week work, boon work, tolls, and fees to his master. Church membership and marriage partner were likely to be decided by the family and the

society. These may have been ways for the realization of the individual, but major matters were hardly left to individual choice.

Medieval Institutions Fall

Modern individualism, then, arose in the wake of the breakdown of Medieval customs and institutions. As Medieval civilization disintegrated the groups lost control over many activities, and the area for individual endeavor and choice grew larger. Many historians place the onset of this disintegration in the fourteenth century, and its culmination anywhere from the sixteenth to the early nineteenth centuries, since feudalism was not officially abolished in France until 1789, and the relics of the Holy Roman Empire survived until 1806. However, in the main the breakdown of Medieval civilization is associated with such developments as the residence of the popes at Avignon, the Great Schism, the Hundred Year's War, the obsolescence of feudal warfare, and the break-up of the guilds. The rise of individualism, on the other hand, is associated with such developments as the rise of capitalism, the Protestant Reformation, and the spread of humanism.

As older ties were loosened, as corporations lost control of many activities, as institutions crum-

bled, individuals were freed from the circumscription of the group. The fifteenth and sixteenth centuries were a great age of prominent individuals, of men of great wealth, of master artists, of revolutionary innovators, of such men as John Huss, Martin Luther, Jakob Fugger, Leonardo da Vinci, Francis Drake, Lorenzo de Medici, Johann Gutenberg, Nicolaus Copernicus, Charles V, and Henry VIII. The confiscation of church lands made much new landed property available to individuals who had formerly been controlled by groups. As the cash nexus replaced older means of commanding service, property became attached to the individual and could be more readily transferred from one to another. With the proliferation of sects, the individual sometimes had a choice of religious denomination, though dire consequences might befall him for exercising it.

Individualism was not for the timid or cowardly in those times, if it ever is. Indeed, the individual was unusually exposed; older protections had been lost, but few new ones had been instituted. A bold individual like Columbus might venture forth to shores unseen before by the white man and claim the New World for Spain, but his achievement only exposed him the more to his enemies, and

he died in disgrace. Savonarola might rise in his wrath to denounce the decadence of Rome, but the flames devoured him for his trouble. Thomas More courageously took his stand for what he believed was right; it cost him his head. Martin Luther escaped, but not because of an instituted protection to freedom of conscience.

Temptations To Surrender

The central problems, which have plagued individualism since, emerged in these conditions. They are: (1) the temptation of the individual to seek refuge from his exposure in some new all-embracing collective; (2) the opportunity for those in power to totalize it since there are little more than lone individuals to counter such a development. Modern European history is replete with instances of both of these developments carried to their logical extremes — virulent and all-embracing nationalisms, on the one hand; absolute rulers, on the other.

Tendencies in these directions appear in the fifteenth through the seventeenth centuries. Much of the power formerly exercised by the church, the nobles, and the corporations was absorbed by monarchs. The nation-state began to emerge in western Europe to claim the loyalty of subjects. The

personal loyalty once owed to the nobility, to the hierarchy in the church, to the master craftsman was shifted to the monarch, who served as a symbol of the state. These monarchs sometimes provided protection, but it was frequently personal and arbitrary, subject to removal without notice. Authoritarianism tended to replace corporatism. These monarchs were soon styling themselves absolute, in the manner of Louis XIV and James I, and claiming to rule by divine right. The restraints upon the power of the king — those posed by the nobility, clergy, burghers — were weak and ineffectual. Individuals were freed from older restraints only to be threatened by the emerging comprehensive power of the monarch and the nation-state.

Modern individualism might have died aborning had developments continued the way they appeared to be going in the seventeenth century. But developments were not following the simple line of the growth of monarchical power. There were men of land and money seeking favorable conditions within which to operate and rights to their possessions which should be inviolate. Privileges granted by monarchs were soon claimed as rights. Contending religious sects vied for liberty to practice their religions and

served as a counterbalance against the authority of the king. There were those still willing to defend ancient rights and privileges. Ideas were being promulgated which when embodied in institutions would protect the individual. The difficulties of transportation and communication limited the power of monarchs; technology had not yet provided the means for a totalization of power.

Favorable Conditions in America

Several circumstances contributed greatly to the development of a tradition of individualism in English America. The discovery, exploration, and settlement of America was coincident with the widespread disintegration of Medieval civilization. Moreover, this development took place more thoroughly in England than on the continent. It can even be argued that feudalism had never been as firmly fixed in England as it had in France, for instance. For another thing, the claims of the monarchs were stubbornly resisted by Parliament and the courts. The Stuart kings who reigned for most of the seventeenth century were under constant harassment by Commons, Puritans, merchants, and judges who insisted that the king was limited by law. Out of this struggle came monarchical recognition of many individual

rights of the citizenry, recognitions acknowledged in the Petition of Right and the Bill of Rights.

Some of the protections from government, then, which are a part of individualism were already a part of the tradition of Englishmen when they came to America. Americans built upon these and added to them in their new surroundings. They transplanted and developed representative government which was frequently used as a means of protecting the individual from the arbitrary exercise of power by agents of the king. A court system was continued, and due process of law was accepted as one of their inherent rights. In the New World, colonists had few of the residues of feudalism to wrestle with: no class system of any rigidity ever gained hold, and the mercantilistic corporations soon lost their powers or had them greatly modified.

The great documents associated with the founding of the Republic carry the imprint of their basis in individualism. The Declaration of Independence declared that all men are "endowed by their Creator with certain unalienable rights; that among these are life, liberty, and the pursuit of happiness." It maintained further that the reason for establishing governments was to assure these

natural rights. The constitutional period was rife with theorists pondering the limits of the common authority to be vested in governments and the extent of individual liberty. The constitutional prohibitions against bills of attainder and ex post facto laws were important protections of the individual in his rights. Prior to this, governments often seized the property of individuals by attainting it. If there was to be government by law, the laws must exist and be known prior to the offense. The Bill of Rights placed enumerated limitations upon the United States government, carving out an area for the individual beyond the reach, at least, of the central government.

Nineteenth Century Progress

For the first two-thirds of the nineteenth century the main tendency in the United States was to develop individualistic customs, folkways, and institutions. American life abounded with such developments. In law, the abolition of entail removed one of the last restraints upon individual control of property. The abolition of primogeniture, however, was more equalitarian than individualistic, but it did permit greater latitude in bequeathing and inheriting property. The individual was increasingly on his own: in joining

and supporting a church (with the disestablishment of churches), in making a living, in gaining position in a community. Americans usually lived in separate houses both in town and country, and the houses in rural areas were usually some distance from one another. Social relations were frequently more dependent upon proximity than upon class or caste.

American thinkers, too, presented ideas and theories to explain, justify, and uphold individualism. I have been trying to deal with individualism as a tradition, not as an ideology, and it is my intention to deal with the ideas within this framework. Ideas become a part of the tradition as they become beliefs by which people justify their practices and inform the institutions which are created in consequence of holding them. This is not to imply that they necessarily precede the tradition or that any particular articulation of ideas is essential to the tradition. There is no opportunity in so brief a survey to do justice to the breadth and richness of thought by Americans on individualism, but I can touch upon that of a few men to exemplify it.

Thomas Paine

Two names stand out in the revolutionary period — Thomas Paine

and Thomas Jefferson. Thomas Paine, itinerant revolutionist whose nimble mind could turn profound doctrines into flaming shibboleths, declared that all men had certain rights by nature. These rights are of two kinds: first, the right of thinking and acting in matters which concern only the individual; second, civil rights, which are natural rights which man possesses as a member of society. All those rights which the individual could exercise without society — thinking, owning and managing property, etc. — he keeps for himself inviolate when he enters society. Civil rights are those which he would be fitted to exercise but lacks the power to assure his right to do so. But the fact that the individual is impotent to enforce his rights against society does not mean that society has the right to deprive him of them. It is rather for the purpose of protecting these rights that individuals join together to form a government.⁴

The rights which Paine enumerated were: the right to equality with other men, to do what injures no one else, to participate in government, to be tried according to pre-established methods and rules, to free expression and thought,

⁴ Thomas Paine, *Rights of Man in Basic Writings* (New York: Willey Book Co., 1942), pp. 37-38.

and the right to property which should be sacred and inviolate.⁵ Each of these rights, Paine declared, carries with it the duty of respecting the same rights for others.⁶

Thomas Jefferson

Thomas Jefferson, despite his active life and many talents, thought deeply about the relation of the individual to society. He did not deny that a man has social obligations, but he did maintain that however great the degree in which man was made for society, he was in an even greater degree made for himself.⁷ Society, as Jefferson conceived it, was merely an aggregate of individuals, not a real entity with rights and prerogatives of its own.⁸ Jefferson was an avid believer in individual rights. It has ever troubled some men that under liberty there will be abuses. But Jefferson said, "I would rather be exposed to the inconveniences attending too much liberty, than those attending too small a degree of it."⁹

Certain rights Jefferson thought were essential: the right of individual conscience, or the right

of every man to care for his own soul;¹⁰ freedom of expression; freedom of commerce (to have dealings with others unhampered); freedom of the person; and the right to ownership and management of property.¹¹ Concerning the latter, Jefferson said: "The true foundation of republican government is the equal right of every citizen, in his person and property, and in their management."¹²

Henry David Thoreau

Nineteenth century essayists added idealism and the subjective bent of Romanticism to the idea of individualism. Henry Thoreau will serve to exemplify this tendency. He will serve well, for his faith in the individual way knew no limits, and was not cluttered by reservations and casuistry. He caught at the central tendency of the tradition and gave it forceful statement. Note this affirmation:

I heartily accept the motto,—“That government is best which governs least”; and I should like to see it acted up to more rapidly and systematically. Carried out, it finally amounts to this, which also I believe,—“That government is best which governs not at all”; and when men are prepared

⁵ *Ibid.*, pp. 89-91.

⁶ *Ibid.*, pp. 92-93.

⁷ Thomas Jefferson, *Democracy*, Saul K. Padover, ed. (New York: D. Appleton-Century, 1939), pp. 22-23.

⁸ *Ibid.*, pp. 55-56

⁹ *Ibid.*, p. 79.

¹⁰ *Ibid.*, pp. 167-68.

¹¹ *Ibid.*, p. 23.

¹² *Ibid.*, p. 53.

for it, that will be the kind of government which they will have.¹³

If it can be said of Thoreau that he had too much faith in men, then it can be said with equal justice that most of us have too much faith in government. This latter was no fault of Thoreau. He said of government, "It has not the vitality and force of a single living man; for a single man can bend it to his will."¹⁴ Moreover,

"this government never of itself furthered any enterprise, but by the alacrity with which it got out of its way. *It* does not keep the country free. *It* does not settle the West. *It* does not educate. The character inherent in the American people has done all that has been accomplished; and it would have done somewhat more, if the government had not sometimes got in its way. For government is an expedient by which men would fain succeed in letting one another alone; and, as has been said, when it is most expedient, the governed are most let alone by it. Trade and commerce, if they were not made of India-rubber, would never manage to bounce over the obstacles which legislators are continually putting in their way; and, if one were to judge these men wholly by the effects of their actions and not partly by their

intentions, they would deserve to be classed and punished with those mischievous persons who put obstructions on the railroads.¹⁵

Thoreau has caught here the heart of the American tradition — that it is individuals who actually do and accomplish things, not groups, organizations, collectives, nor governments. These latter are at most aids, at worst obstructions.

William Graham Sumner

In his earlier writings, William Graham Sumner was an articulate advocate of the individual way. Particularly, he advanced the belief in individual responsibility and denied the validity of the emerging idea that the state was responsible for the well-being of individuals. The state, he thought, is not an entity; it is merely all the people joined together for the common purpose of protection. Hence, the state has no obligations which an individual does not have. He conceived American society to have been composed of free and independent men joined by a contract of their making. This contract was made, he said, to give the "utmost room and chance for individual development, and for all the self-reliance and dignity of a free man." No man might claim the help of an-

¹³ Henry D. Thoreau, "On the Duty of Civil Disobedience," pub. in *Walden*, Norman H. Pearson, intro. (New York: Rinehart, 1948) p. 281.

¹⁴ *Ibid.*

¹⁵ *Ibid.*, p. 282.

other as a right, whether the other be a single individual or a group of individuals joined by contract to form a state.¹⁶ The purpose of government, he thought, is to protect civil liberty. Civil liberty is *"a status created for the individual by laws and institutions, the effect of which is that each man is guaranteed the use of all his own powers exclusively for his own welfare."*¹⁷

Choices and Responsibilities

A tradition of individualism, then, had taken shape in America. The folkways and customs of Americans were built upon it; the political institutions had been designed to safeguard it; a way of life had been built around it; theories had been developed to bolster it.

The way of individual liberty is not always an easy one. A society organized in this way holds an individual responsible for his own well-being, places the blame directly upon him for any violation of the rights of others, makes charity a voluntary matter, places the opportunity (and burden) of choices directly upon him, denies him its force to do his will. Of course, it leaves open to individ-

uals all sorts of voluntary arrangements by which they may work together with others for common ends. Still, there must always be the temptation to many to be rid of the onerous burden of choices and responsibilities, to weld groups into more permanent and powerful forces by law, to merge oneself finally with some collective. Too, there is the ever present fact that when men are rewarded according to ability and effort, as they will tend to be under liberty, that some will have much more than others. Greed is ever a powerful motive for men to join together to divest others of their holdings. In well ordered lands, such groupings are referred to as gangs or bands of robbers. In these disordered times, they are known by euphemisms which appear respectable when they use government to effect their ends.

Probably there was never a time in American history when the individualistic way completely triumphed over or pushed out the use of force for dubious common ends. Slaveholders used the state to maintain their sway over their slaves. State and local governments were often apt to use their borrowing powers to advance some private or group interest. The control which the United States government has over legal tender has often been used by certain in-

¹⁶ William G. Sumner, *What Social Classes Owe to Each Other*, Albert G. Keller, intro. (New York: Harper, 1920), pp. 26-27.

¹⁷ *Ibid.*, p. 34.

terests to advance their cause at the expense of those individuals who suffered by inflation or deflation. Nor is it likely that we shall ever be entirely free of the abuse of power so long as it is necessary to concentrate some of it, and it is and probably will remain necessary to do so.

A Shift Toward Collectivism

Let us not, however, confuse the occasional abuse of power which is hardly to be avoided with a central shift of direction. Since the latter part of the nineteenth century Americans have turned more and more from the tradition of individualism toward at least one of the modern forms of collectivism. I think it would be true to say that collectivism has nowhere simply arisen as a tradition in the modern era, though some historians have struggled to demonstrate its evolutionary emergence. In fact, however, it has been advanced everywhere by ideologies and is imposed by force or the veiled threat of force.

The signs of the shift to collectivism began to appear in America with the growth of labor unions, the activities of farmer organizations to promote legislation favorable to them, and the rise of large business combines. These developments were accompanied by efforts to arouse class

consciousness and the development of nationalistic thought and sentiment. New conceptions of society, of democracy, and of the desirability of a "positive" role of government were advanced in America by populists, by socialists, by Progressives, and by assorted other reformers. All of them tended to conceive of man as a part of some social class or whole and pointed the way to his fulfillment by way of collective action. Collectivism virtually triumphed after 1933 with the empowerment of groups, the massive use of government to redistribute the wealth, the promotion and protection of groups by law, and the widespread adoption of a new social ethos.

Many thinkers of the nineteenth century had thought that the inspiring story to be discovered in history had been the gradual emergence of the individual from the mass, of the growth of protections around the individual to support him in his liberty, of the emergence of a clearer conception of morality, of natural law, and of the individual as the motive power in human affairs. We can be happy for them that they could not see a little into the future, when intellectuals would be proclaiming the growth of collectives to be progress, when politicians unabashedly took from some to give to others under the cover of

morality, when individuals would be gladly yielding up the hard won liberty that their forefathers had vouchsafed to them in order to receive the comforts of submergence in the mass.

Yet we know that individual morality still lives in the thoughts and actions of most, that if it did not, things would be worse than

they are. We know that there are many who would repudiate the trend of this century toward collectivism if they could perceive it clearly. We believe that if the protective cover of rhetoric under which collectivism has been advanced could be removed, men would act gladly to restore a vital tradition. ♦

• *The next article in this series will treat "Of Equality"*



"Big Red" Makes a Choice

WILLIAM E. HOWELL

A HAWK, a snow-covered field, a zoo, and a bobtailed mouse were subject parts of a recent lesson in self-determination and the right to choose. These principles of liberty, bequeathed to us by those who regarded them highly, apparently have come to be lightly esteemed in a welfare state.

As I stood looking across our icy, snow-covered countryside, the thermometer outside the window read zero.

Mr. Howell works for a chemical company in Kansas.

The real object of my scanning was not yet in view, though ordinarily one could almost check the time by his appearance. I was reaching the point of concern when I sighted him well off his usual path, low over the treetops, and coming in fast. Big Red was late.

Big Red is an Eastern red-tailed hawk, a giant in his family, a magnificent specimen, not a feather missing; and he shines with the metallic sheen of cleanliness. For four years he has

patrolled our rural area, teaching us the worth of hawks in general and something about independence and self-reliance in particular — he has but one leg.

As he leveled off over the field he had chosen as a hunting ground, he set immediately and intensely about his job. The big fellow obviously was hungry; and his aerial maneuvers were something to watch as he sailed low and slowly over the icy table Nature had set below him.

He balanced himself in the icy air with the ease and grace of a tightwire walker, investigating every clump of poverty grass and giving special attention to tree- and bush-lined fence rows.

He worked steadily without results as he measured off the area of the field before moving to the row of trees within fifty feet of my ringside window. As he pulled even with me, he wheeled suddenly away as if startled. Flapping his wings to gain altitude, he made a lightning about-face and dived like a bullet at the base of a huge wild cherry tree that supported a bird feeding station. Amid a flurry of snow and feathers, he came up with a fat, short-tailed mouse as large as a small rat, probably his first food of the day.

As he made off with his catch, my thoughts turned to another

specimen of red-tailed hawk living under different conditions: *Buteo borealis borealis*, the caption under his cage says; he is in the birdhouse at our zoo. In his dirty, broken feathers he sits motionless, apparently oblivious to his surroundings, caring so little about living as to seldom open his eyes; and when he does, his vacant stare wanders without focus and without hope or purpose to give it expression. Gone is the fierce countenance of birds of prey, the characteristic that makes them fascinating.

My eye followed Big Red as he made for some dining point he had in mind, and the thought occurred: if he had a choice, would this wild thing exchange his meager morsel so wearily gleaned on his frigid patrol for the full belly of his broken counterpart resting securely behind bars never to know the glory of sailing slowly over a snow-covered field with the temperature at zero?

One is free to suffer, free to loaf, free to choose — just free; the other is not. True, the captive did not choose his status of security. But whether a creature (human or other) voluntarily seeks such security, or is forced to accept it, the deadening consequences seem inevitable. ♦

Little Jack Horner

RALPH BRADFORD

Little Jack Horner sat in a corner,
Eating his Christmas pie;
He stuck in his thumb to pull out a plum —
But instead of delighting his friends by reciting
“What a good boy am I,”
He let out a yelp and yammered for help.

His happiness perished — was banished;
For the pie that he cherished had vanished,
To float in the air like a brown-sugar moon,
Or a beckoning, orbiting pastry balloon.

And he knew with a start that the oversize tart
Was just an illusion. He never had spent
From out of his savings a single red cent
To pay for his pie; and now with his eye
Full of tears, he confronted his moment of truth —
Very painful indeed for so tender a youth,
And painfuller still for his fully-grown brother,
His uncle and aunt, and his father and mother —
That nothing is free; what you get you must buy;
That no one gets fat, however he try,
Or even comes nigh it, who limits his diet
To pie . . . in the sky!

Mr. Bradford is a noted speaker, writer, and business organization consultant.

A Matter of PHILOSOPHY

ADOLF A. BERLE'S *The American Economic Republic* (Harcourt, Brace and World, 247 pp., \$4.50) has been praised by the believers in the "mixed economy," and damned out of hand by libertarians. From the standpoint of pure economics, this reviewer should be lining up with the libertarians in condemning or dismissing Mr. Berle's work. Yet, among all its defects, *The American Economic Republic* has one great virtue that libertarians should welcome. The virtue is to be found in Berle's discussion of the role of imagination, mind, and will in finding new uses for capital.

As Mr. Berle puts it, capital is not simply a matter of money or machinery. Expressed in terms of dollars, the United States generates a new capital of some \$100 billion annually. But this, says Mr. Berle, is "mere abstraction." The \$100 billion remains inert until "developed talent" has gone to

work on the problem of employing it. "Audit," says Mr. Berle, "to be real, becomes a matter of philosophy . . . Who can measure the gains drawn from near elimination of tuberculosis or polio or the results, plus or minus, derived from release from drudgery brought about by automation? . . . The greater the body of developed talent in the United States, and the greater the opportunity for all possessing talent to bring it to bear on the use of annually formed capital, the greater will be the range and quantity of productivity."

Having correctly put his finger on the shortcomings of economists who continue to think of capital as "dead" dollars and not as something that demands imaginative "going concerns" to make it humanly fruitful, Mr. Berle then proceeds to back-pedal for long and confusing stretches.

What vitiates most of *The*

American Economic Republic is Mr. Berle's passion for making distinctions that have only a surface plausibility. His biggest error is the attempt to distinguish between "active" and "passive" property. According to Berle, "active" property is a tractor, a farm, a house, a proprietor-operated industry. "Passive" property, on the other hand, is any stock ownership that does not play its direct part in the workings of management. Mr. Berle considers most stockholders to be completely isolated from business.

Stockholder Activity

The distinction is tenable only on the assumption that most stock ownership has no effect on management decisions in such things as allocating new capital. If this reviewer had not gone through an apprenticeship writing corporation stories for *Fortune Magazine*, he might have been impressed by Mr. Berle's reasoning. But in many a mill town, from Latrobe, Pennsylvania, to Toledo, Ohio, I have sat idly by from 9 to 9:15 of a morning while the local factory manager skimmed through the pages of the *Wall Street Journal* looking to see how his company has been performing in the eyes of its owners. Managers, all of them, are stock market conscious — which means that stockowners,

by exercising decisions to buy or sell, are putting their fingers on management every day of the week. The veto power of the stockholder is certainly not a "passive" thing.

To sustain his distinction, Berle would no doubt argue that the recent decision of the Kennecott Copper Company to cut down on the dividend rate in order to build new facilities in Utah instead of in Chile, where the investment per ton of ore might have been less, is something that management undertook without reference to the stockholders. But such a view is the sheerest sophistry. The truth is that the rise of Marxist parties in Latin America has made it unsafe for American corporations to put stockholders' money into places where the threat of confiscation or unconscionably high taxation menaces stock equities. If the Kennecott management had only consulted its own managerial class interests, it might have gone on plowing profits back into its Chile mines with the sure knowledge that the Chilean government would continue to employ Kennecott engineering talent even in the event of a formal take-over of the property. But the stockholder, that silent but effective critic, caused the Kennecott management to consider the owners' interests first. If this is "passivity," we are

in for a rewriting of the dictionary.

Nineteenth Century Capitalism

When it comes to looking back on the history of U.S. industrial development, Mr. Berle is quite unfair to the nineteenth century. He indulges in nonsense when he says the "ethics of the time did not extend to assuring that the processes of production were humanly decent, or even humanly tolerable," and he slanders many a good U.S. enterpriser when he goes on to say that "in the interpretation of half a century ago, it (American capitalism) achieved results surprisingly like those observable in the Soviet Union, and peculiarly in Communist China, at present."

Well, just a half a century ago, in 1913, Henry Ford was coming to the decision that the minimum automobile wage should be \$5 a day (or more than \$10 a day in terms of the 1963 dollar). A \$50-a-week minimum wage would be little enough in modern America. But how many workers in Soviet Russia or in Red China get anything like that at present?

Again, what was "intolerable" about working for a good man like Captain Bill Jones in a Carnegie mill in nineteenth century Pittsburgh? Or for John Fritz at a Bethlehem Steel Company mill?

Jones and Fritz were humane bosses who established great *esprit de corps*. Steel mill work in the nineteenth century was dangerous, but there were those who loved it. And the capitalist "governing classes" of the nineteenth century in America, though they might have ended the twelve-hour day before they did, certainly failed to coerce their employees politically. Democrats were elected to office continuously in spite of Republican mill owners, and when McKinley, a Republican, beat Bryan in 1896, it was with the slogan of the "full dinner pail." In Soviet Russia and in Red China, by contrast, millions of workers have been starved, killed, or sent to political labor camps.

When it comes to the "transcendental margin," meaning the surplus of production that goes to "achieve ends transcending the calculation of individual material advantage," does Berle think for a minute that there was no such margin back in 1820, or 1870, or 1900? On Mr. Berle's own showing, America had a well-defined system of education long before modern times. There are many New England and Middle State colleges and academies that even pre-date the American Revolution. The public school was an early "public sector" investment in most towns and villages of the United

States well over a hundred years ago.

In trying to establish distinctions that are not distinctions, Berle has to assume in spite of his own evidence that the nature of man has somehow changed in the twentieth century. Today, he says, the "scientific institute of scholars" is the primary decision-maker in capital allocations. Well, wasn't it always thus? Eli Whitney was a scholar, just out of Yale, when he invented the cotton gin. He had no capital, yet he was the "decision-maker" that fastened the slave plantation system on the South for fifty years. And he had only a War Department contract when he started to apply mass production principles to the manufacture of guns. How does this differ in any basic sense from what goes on today? Whitney had ideas and he attracted capital for their exploitation. Similarly, that twentieth century Harvard scholar and chemist, Dr. Carothers, had ideas about synthetic fibers. The Du Ponts backed Carothers' brains with money in the age-old capitalistic way.

Adolf Berle is far more sympathetic to free enterprise than he was in his New Deal days. But he still can't see that the principles of freedom do not change, for they are grounded in the eternal nature of man. ♦

► THE FREE AND PROSPEROUS COMMONWEALTH by Ludwig von Mises, translated by Ralph Raico (D. Van Nostrand Company, 207 pp., \$5.50).

Reviewed by Percy L. Greaves, Jr.

THERE are right answers to our social problems, and Ludwig von Mises, truly an *economiste extraordinaire*, packs his books with them.

Back in 1927 he pictured the pitfalls ahead for nations whose governments grant privileges to the political groups that keep them in power. More than a generation ago, he foresaw that the existence of such privileges would disrupt world trade and lead to political persecutions, wars between the western powers, and bloodshed in Asia and Africa, while Russia continued to act "like a robber who lies in wait for the moment he can pounce on his victim and plunder him of his possessions."

Mises, then an Austrian citizen, wrote this book in German as a warning to all Europeans, and especially the Germans. If his book had been read, digested, and heeded by the thought leaders of that day, the world would have been spared a multitude of miseries and millions of needless deaths. The horrors of the past cannot be

undone. However, it is never too late to learn the elementary principles that whole populations must practice if men are ever to live in harmony with a continuing multiplication of human comforts. So we can be happy that Ralph Raico, a bright and promising graduate student, has made this book available in English as *The Free and Prosperous Commonwealth*.

The contents are actually better described by the English subtitle, *An Exposition of the Ideas of Classical Liberalism*. Mises writes of liberalism in its true and original meaning, the limitation of political power to the restraint, prescription, and prevention of anti-social actions which disrupt man's peaceful pursuit of happiness.

Liberalism in this sense prescribes the private ownership and control of all productive property. It holds that the private owners of such property can advance their own welfare only by offering consumers higher values than can be duplicated elsewhere for the same expenditure of funds or effort. The security of such property from theft encourages all sorts of investments in socially productive facilities. These increased investments, along with increased specialization of labor, account for the higher living standards of market societies.

Progressive societies of this

type can exist only in areas where peace is preserved at the factory gates and market place. Under real liberalism, the function of government is to maintain that peace by protecting the lives and property of all who come to rely on the market for their supplies of necessities, as well as the luxuries that become the necessities of the next generation.

Unfortunately, as Mises writes in the new Preface, "the tenets of this nineteenth-century philosophy of liberalism are almost forgotten. . . . In the United States 'liberal' means today a set of ideas and political postulates that in every regard are the opposite of all that liberalism meant to the preceding generations. The American self-styled liberal aims at government omnipotence, is a resolute foe of free enterprise, and advocates all-round planning by the authorities, i.e., socialism."

Today, most modern "liberals" think they have found a shortcut to economic prosperity — massive political action. They hold that the injustices of our world can all be corrected by the political direction of a "more equal" distribution of wealth. The first step they advocated was to levy confiscatory taxes on corporations and higher-than-average personal incomes for "redistribution" among those groups whose votes they sought.

When it was found that such taxes slow down production, the next step of the self-styled "liberals" has been to even up wealth by the injection of newly created sums of money into the bank accounts and pocketbooks of those whose political support is considered necessary. These recipients are expected to spend the artificially created "legal tender" promptly and thus bring about "full employment" and a business boom.

As Mises tells us, "those who advocate equality of income distribution overlook the most important point, namely, that the total available for distribution, the annual product of social labor, is not independent of the manner in which it is divided. The fact that that product is today as great as it is... is entirely the result of our social institutions. Only because inequality of wealth is possible in our social order, only because it stimulates everyone to produce as much as he can and at the lowest cost, does mankind today have at its disposal the... wealth now available for consumption. Were this incentive to be destroyed, productivity would be so greatly reduced that the portion that an equal distribution would allot to each individual would be

far less than what even the poorest receives today."

How can we stem the present tide of pseudo liberalism? How can we start a surge toward real liberalism? Here is the answer in the words of Mises:

"There is nothing in the world more powerful than ideologies and ideologists and only with ideas can one fight against ideas. . . . Against what is stupid, nonsensical, erroneous, and evil, liberalism fights with the weapons of the mind, and not with brute force and repression. . . . In a battle between force and an idea, the latter always prevails. . . . The minority that desires to see its ideas triumph must strive by intellectual means to become the majority."

This little book is full of the right ideas. Unlike some of the other fundamental books of Mises, this volume is exceedingly easy to read. Those who shudder at heavy tomes will find it written in simple style and delightfully clear. If we are to avoid the complete collapse of our market society, on which each of us has become so dependent for our very means of survival, the contents of this great book should be widely read and spread. ◆

NOW AVAILABLE —

A Manual for

Do-It-Yourself Seminars

WITH THE AID OF

FEE's *L.P. Seminar Recordings*

by

**LOVETT C. PETERS, Vice-president
Continental Oil Company
Houston, Texas**

Mr. Peters, a Trustee and Treasurer of The Foundation for Economic Education, has organized and conducted numerous freedom seminars for the benefit of office personnel as well as neighbors and other friends. He has generously prepared this Manual so that others may have the advantage of his experiences.

For a free copy of the Manual, including a list of available records and suggested discussion questions and supplemental readings, write to:

**THE FOUNDATION FOR ECONOMIC EDUCATION, INC.
IRVINGTON-ON-HUDSON, NEW YORK, 10533**

THE VALUE OF FREEDOM

☐ Throughout history orators and poets have extolled liberty, but no one has told us why liberty is so important. Our attitude towards such matters should depend on whether we consider civilization as fixed or as advancing. . . . In an advancing society, any restriction on liberty reduces the number of things tried and so reduces the rate of progress. In such a society freedom of action is granted to the individual, not because it gives him greater satisfaction but because if allowed to go his own way, he will on the average serve the rest of us better than under any orders we know how to give.

H. B. PHILLIPS

On the Nature of Progress